NEW YORK STATE OF OPPORTUNITY. | Department of Financial Services

Comments for Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change

JUNE 2021

List of Commenters

Institution	Name	Title
Willis Re	Daniil Shalmiyev	Assistant Vice President - ERM
KOOKMIN BEST INSURANCE COMPANY	Shashi Galav	CFO
Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
Taiwan Financial Supervisory Commission	Jasmin Liu	Director
American Property Casulty Insurers Association	Dave Snyder	Vice President
EmblemHealth	Thomas A. Conway	Chief Risk Officer
MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs
National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
Life Insurance Council of New York, Inc.	Diane D. Stuto	Managing Director
Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
Zurich North America	Lynne Grinsell	AVP
New York Insurance Association (NYIA)	Ellen Melchionni	President
Teachers Insurance and Annuity Association of America	Ronald Ragin, Sarah Wilson	Senior Director, Associate General Counsel, Regulatory Affairs, MD, Responsible Investment
Reinsurance Association of America	Dennis C. Burke	VP
American Academy of Actuaries	Craig Hanna	Director of Pulic Policy
Public Citizen	Yevgeny Shrago	Policy Counsel
New York Health Plan Association	Leslie S. Moran	Senior Vice President
	Donna Seymour	
	Louise Golub	
	Alexa Spiegel	
	Joseph Pfister	
	Nadine Godwin	
Emmanuel Baptist Church - Albany, NY	Mark Chaffin	Rev.
Peoples Climate Movement - NY	Laurel Tumarkin	
Bloomberg L.P.	Greg Babyak	Global Head of Regulatory Affairs
	Meghan Jones	

	Lewis Taishioff	
	Brooke Pierce	
	John Ferrari	
Delta Dental of New York	James Mullen	Manager
	Judy Staples	
Joe Average Citizen -- just a guy who cares about climate change	Michael Gold	
	Steven Goldman	
	Diane Matza	
	Linda Trey	
The Sunrise Project	Dana Affleck	
LeadingAge New York	Michelle Gramoglia	CCRC Cabinet President
Principles for Responsible Investment	Edward Baker	Technical Head, Climate Change and Energy Transition
	Michelle Freedman	
Ceres Accelerator for Sustainable Capital Markets	Steven M. Rothstein	Managing Director,
	Sofia Ida Petros	
	Jim Derzon	
Woodwell Climate Research Center	Christopher Schwalm	head of Risk program

Comments

ID	Section	Paragraph #	Type of Comment	Detailed Comment	Institution	Name	Title
1	3.5 Risk Management	52	Clarification	Are the short-term and long-term mentioned here the same as the respective periods (3-5 years and 30 years) established in section 3.1, paragraph 16? As of 2014-15, IPCC AR-5 considers near-term and long-term time horizons of (2030-2040) and (2080 - 2100).	Willis Re	Daniil Shalmiyev	Assistant Vice President - ERM
				How would the DFS like to see insurers align the ORSA's focus on near term solvency with the quantifiable impact of climate change which emerges over tens of years?	Willis Re	Daniil Shalmiyev	Assistant Vice President - ERM
1	3.3 Risk Culture and Governance	3	Clarification	For a branch of an Alien Company under a Holding Company Structure, does the guidance to appoint a Board Member extend to the U.S. Branch or its immediate Alien Parent or Alien Ultimate Parent?	KOOKMIN BEST INSURANCE COMPANY	Shashi Galav	CFO
2	3.5 Risk Management	3	Clarification	In addition to ORSA, we submit an HC-1, Governance and Disaster Recovery Plan. Would we be expected to address Climate change risk in each of these filings. Is there a separate submission that we may expect addressing Climate change risk only? Could you please also address by when DFS may expect the change to the Org structure.	KOOKMIN BEST INSURANCE COMPANY	Shashi Galav	CFO
1	3.1 Proportionate Approach	16	Amendment	The Department should consider making these requirements more risk-based. If climate risks are determined not to be material, it is both unnecessary and onerous to have to plan for the specified timeframes. Also, if it is determined that the only material climate risks are on the asset side, the liquidity of exposed assets may mean that shorter time horizons are more appropriate.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
2	3.2 Materiality	17	Amendment	We respectfully request that the references to scenario analysis and stress testing be qualified with language making clear than any such requirements are only applicable as appropriate based on the materiality of the assessed risks.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel

3	3.3 Risk Culture and Governance	20	Amendment	Replace "as responsible for the insurer’s assessment and management of climate risks" with "as responsible for the insurer’s assessment and oversight of climate risk". We believe that the board's primary role is one of oversight with respect to climate risk. Climate risk management properly rests with senior management of the company.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
4	3.3 Risk Culture and Governance	22	Amendment	Replace "adopted by its board" with "approved by its board." Equitable agrees that a company's board has an important role to play in ensuring that the company develops and implements an appopriate climate risk policy. However, we believe that development and adoption of a climate risk policy is properly within the purview of senior management and the company's risk specialists, rather than the board. We view the board's role as assessing, approving and overseeing management's implementation of the company's risk policy.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
5	3.3 Risk Culture and Governance	24(a)-(d)	Clarification	We request that the Department add language clarifying that the expectation for companies which already have mature risk management structures within their organizations is simply that climate risks be included within the scope of such structures. The current language could be construed to require creation of a dedicated structure for climate risks.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
6	3.3 Risk Culture and Governance	24(f)	Clarification	It is unclear what the Department means by an "independent" review of the company's functions and procedures for managing climate risks. We believe that the intention is that this task should be assigned to the company's internal audit function.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
7	3.4 Business Models and Strategies	26,27	Amendment	Mandating scenario analysis and stress testing for business planning and strategy setting is potentially counterproductive and may not be relevant for insurers without material climate risks. We request the Department modify this language to encourage scenario analysis and stress testing where appropriate, rather than mandating them for all insurers.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate General Counsel
8	3.5 Risk Management	29	Amendment	We respectfully request that the references to scenario analysis and stress testing be qualified with language making clear than any such requirement is only appliable as appropriate based on the materiality of the assessed risks.	Equitable Financial Life Insurance Company	Rob Negron	Lead Director & Associate

							General Counsel
9	3.5 Risk Manage ment	34	Clarifica tion	It is unclear what it means for these functions to be integrated for the stated purposes. We suggest the language be revised to make clear that consideration of climate risks should include input from, rather than integration with these control functions.	Equitable Financial Life Insurance Company	Rob Negro n	Lead Director & Associate General Counsel
1 0	3.6 Scenario Analysis	54	Clarifica tion	The guidance does not specify the frequency with which insurers should conduct scenario analysis. We propose that the Department consider permitting insurers who determine that climate change poses no material risks to their business to conduct scenario analysis on a less frequent basis than other insurers. We also propose that the language be revised to indicate that stress testing is only required for any material identified risks.	Equitable Financial Life Insurance Company	Rob Negro n	Lead Director & Associate General Counsel
1) A critical aspect of scenario analysis is the selection of a set of scenarios (not just one) that covers a reasonable variety of future outcomes, both favorable and unfavorable. In this regard, the Department might consider recommending that insurers align to TCFD scenarios if appropriate for their risk profile. *For example, TCFD recommends using the so-called 2°C scenario, which lays out a pathway and an emissions trajectory consistent with holding the increase in the global average temperature to 2°C above pre-industrial levels.*					Equitable Financial Life Insurance Company	Rob Negro n	Lead Director & Associate General Counsel
2) We are concerned that mandatory disclosures relating to ESG strategy could put organizations at greater risk of litigation, given the high degree of uncertainty around the future timing and magnitude of climate-related impacts.					Equitable Financial Life Insurance Company	Rob Negro n	Lead Director & Associate General Counsel

				The process of transition to a low-carbon enterprise requires a large amount of financial support. Hence, financial institutions shall play a more active role to guide and help enterprises take actions of transition rather than merely rejecting underwriting or passively withdrawing their funds out of enterprises faced with climate-related risks. Besides, enterprises' demand for investment, financing and fund-raising brings opportunities to financial industry. Therefore, in addition to encouraging insurers to control and mitigate climate-related risks, DFS may also encourage them to play an active and influential role to guide enterprises to respond to climate-related risks and make feasible transition. Specifically, it is recommended to add the following content in the part of Business Models and Strategies: insurers are encouraged to lay out their strategies and approaches requiring their investees or insured parties to make plans and timetable for reducing GHG emissions, adapting to climate-related risks or moving toward more resilient business models. Insurers should also trace enterprises' implementation results and based on the efficacy decide their next steps, such as withdrawing funds, so as to facilitate and accelerate the transition to a low-carbon economy.	Taiwan Financial Supervisory Commission	Jasmin Liu	Director
1		4	Clarification	We strongly support the over-all approach as indicated by references to "dialogue" and "help". Reasonable deadlines for implementation of the guidance and its elements will be an important consideration.	American Property Casulty Insurers Association	Dave Snyder	Vice President
2		5	Clarification	Considering the wide range within APCIA's membership, the recognition of a "wide range of levels of maturation and sophistication", reflects the reality in our highly competitive and yet financially sound property casualty insurance markets.	American Property Casulty Insurers Association	Dave Snyder	Vice President
3		6	Clarification	In consideration of the global interests of many APCIA members, the reference to working with international regulators is much appreciated. As a caveat, however, we note that the competitiveness of the U.S. market with its many sizes and business models may be unique in the world and therefore requires special consideration in the guidance.	American Property Casulty Insurers Association	Dave Snyder	Vice President
4		7	Clarification	Likewise, this paragraph is much appreciated. We especially call attention to the objective of reducing the compliance burden on insurers.	American Property Casulty Insurers Association	Dave Snyder	Vice President
5		8	Clarification	We agree with the importance of adaptation and mitigation and note that some high risks may in fact not be insurable. Allowing for risk-based pricing should be a key component of helping the larger society recognize its risks, manage, and reduce those risks and thereby encourage addressing climate related risks.	American Property Casulty	Dave Snyder	Vice President

					Insurers Association		
6	2. Financial Risks from Climate Change	10	Clarification	Accurately predicting and responding to "transition risks" is extremely challenging as illustrated by this paragraph which includes "shifting sentiment and societal preferences" in the definition of transition risks. Recent events demonstrate the challenge if not the impracticality of accurately defining and acting on transition risks in the current context. For example, there have been dramatic political swings nationally and climate relevant policies and actions which differ significantly between and even within states.	American Property Casulty Insurers Association	Dave Snyder	Vice President
7	2. Financial Risks from Climate Change	12	Amendment	Not all climate risks are unprecedented, particularly many physical risks, depending on a suitable time horizon and geographic area. However, the longer the time horizon and the wider the geographic area, climate risk prediction becomes more uncertain.	American Property Casulty Insurers Association	Dave Snyder	Vice President
8	3. Proposed Detailed Guidance	13	Clarification	We strongly endorse this paragraph and agree with the "proportionate approach" and "the nature, scale and complexity of its business". Consideration by a company of climate risks on its underwriting and investments should be consistent with the nature, scale, and complexity of the insurance company's business.	American Property Casulty Insurers Association	Dave Snyder	Vice President
9	3. Proposed Detailed Guidance	14	Clarification	We appreciate the recognition that in many cases companies will need to start with qualitative considerations.	American Property Casulty Insurers Association	Dave Snyder	Vice President
10	3. Proposed Detailed Guidance	15	Amendment	We have concerns about the availability of data and other information needed to realistically analyze and respond to the four scenarios. They all involve numerous assumptions and predictions about future political trends, public sentiment, and the actions of the public and private sectors of the economy. Additionally, there are not currently well-established models that reliably link various levels of human behavior to specific frequency and severity projections for various types of national disasters, such as hurricanes, hail, and wildfires.	American Property Casulty Insurers Association	Dave Snyder	Vice President

11	3. Proposed Detailed Guidance	16	Amendment	The usual time horizon for property casualty insurers coverage commitments is 1 year. While a somewhat longer time horizon is used for planning purposes, it is usually nowhere near the 10 or 30 years proposed in the guidance. As one member wrote: “With respect to insurance planning, projections that extend beyond three to five years have virtually no predictive value, producing such a wide range of estimates as to be unactionable. We should stick to what we know and can reasonably forecast, not pretend we know things that cannot be known, so that our efforts can be focused and efficient. Otherwise, the results of the guidance run the risk of not being taken seriously.” We do not believe those time horizons are material or realistic for many insurers. A better approach would be to allow the insurer in dialogue with the regulator to set the timeframe that reflects the realities of its products, business model and level of its resources to predict longer time horizons.	American Property Casulty Insurers Association	Dave Snyder	Vice President
12	3.2 Materiality	17	Clarification	We strongly support the notion that compliance will need to be qualitative for many companies for the foreseeable future.	American Property Casulty Insurers Association	Dave Snyder	Vice President
13	3.2 Materiality	18	Amendment	We appreciate the emphasis on “materiality” but believe a broader definition including the nature, scale and complexity of the business should be utilized.	American Property Casulty Insurers Association	Dave Snyder	Vice President
14	3.3 Risk Culture and Governance	19	Clarification	Again, the issue of relevant and material time horizons for each company is presented.	American Property Casulty Insurers Association	Dave Snyder	Vice President
15	3.3 Risk Culture and Governance	20	Clarification	The requirement for a specific designation of a Board member and senior executive to be responsible for climate risks is fine so long as it does not require that to be the sole responsibility of the designated person(s) as smaller companies often have the same person performing multiple duties.	American Property Casulty Insurers Association	Dave Snyder	Vice President

16	3.3 Risk Culture and Governance	21	Amendment	The standard of materiality remains critical, and its recognition is appreciated. While we would prefer there not be a mandate to designate a Board or senior executive responsible for immaterial risks, so long as that may be combined when needed with other functions then the mandate is reasonable.	American Property Casulty Insurers Association	Dave Snyder	Vice President
17	3.3 Risk Culture and Governance	22	Amendment	This paragraph appears to mandate a written risk policy on climate risk. But if it is determined not to be material considering the company's nature, scale, and complexity, then this requirement would not be reasonable.	American Property Casulty Insurers Association	Dave Snyder	Vice President
18	3.3 Risk Culture and Governance	23	Clarification	We much appreciate the recognition of the data and methodological challenges, and that many insurers will need to start with qualitative assessments.	American Property Casulty Insurers Association	Dave Snyder	Vice President
19	3.3 Risk Culture and Governance	24	Amendment	This paragraph is overly prescriptive, especially if it requires a new parallel set of risk management functions beyond those the company has for other purposes. The requirement for "independent" reviews in subparagraph f. will be very difficult to comply with. With regard to subparagraph h., we are fine with the recommendation to consider such policies but would be concerned if this guidance became more of a mandate than a recommendation.	American Property Casulty Insurers Association	Dave Snyder	Vice President
20	3.4 Business Models and Strategies	26 and 27	Clarification	These paragraphs seem to mandate scenario analysis and stress testing for all companies regardless of the materiality of climate risk. We ask for clarification that scenario analysis and stress testing is only needed to the extent that climate risk is deemed material to the company. Even for highly engaged companies, exactly what to analyze and stress and with what data are significant challenges.	American Property Casulty Insurers Association	Dave Snyder	Vice President
21	3.5 Risk Management	29	Clarification	We endorse the notion that all material risks should be identified and documented by the company to the regulator.	American Property Casulty Insurers Association	Dave Snyder	Vice President

22	3.5 Risk Management	30	Amendment	This paragraph is too prescriptive; the basis of the identified approaches should be more clearly discussed; and it would benefit from more discussion between regulators and the companies.	American Property Casulty Insurers Association	Dave Snyder	Vice President
23	3.5 Risk Management	32	Clarification	We appreciate the connection to materiality.	American Property Casulty Insurers Association	Dave Snyder	Vice President
24	3.5 Risk Management	33	Amendment	Again, assessing transition risks is difficult at best and not realistic or useful at worst, considering the complicated political, social, and economic context of the U.S., not to mention the global context. Rather, the focus should be on a time horizon and assessment of risks that are material to the insurer given the insurer's business model.	American Property Casulty Insurers Association	Dave Snyder	Vice President
25	3.5 Risk Management	34	Amendment	This paragraph is overly prescriptive. It would be sufficient to reiterate that the control functions should be appropriate to manage the risks that are material to the company.	American Property Casulty Insurers Association	Dave Snyder	Vice President
26	3.5 Risk Management	35	Amendment	Board governance should reflect and focus on oversight of the risks that are material to the company, and the guidance should not require commitment of Board resources on immaterial risks.	American Property Casulty Insurers Association	Dave Snyder	Vice President
27	3.5 Risk Management	36	Amendment	This paragraph appropriately refers to the standard of "all reasonably foreseeable and relevant material risks" for ERM functions. However, the rest of the paragraph appears to assume that all climate risks fit that definition. Transition risks pose particular challenges as to their materiality to certain business models and in all cases pose challenges regarding the assumptions and data needed to analyze them.	American Property Casulty Insurers Association	Dave Snyder	Vice President

28	3.5 Risk Management	37	Amendment	This paragraph on credit risk and the following paragraphs on other risks should make clear that the analysis of climate physical and transition risks depends on the company's assessment of materiality and the ability to cost-effectively assess the risks. We appreciate the recognition that "climate change's impact on credit risk is likely small relative to its impact on other risk factors". Also, insurers cannot necessarily individually evaluate the credit score of our bond investments or the claims paying ability of our reinsurers in stressed environments. That is a key role of rating agencies and reliance on them should be allowed.	American Property Casulty Insurers Association	Dave Snyder	Vice President
29	3.5 Risk Management	38	Clarification	We appreciate the focus of market risk analysis on "sectors and geographies most exposed to physical and transition risks."	American Property Casulty Insurers Association	Dave Snyder	Vice President
30	3.5 Risk Management	39	Amendment	This paragraph assumes too much in terms of the outcome of litigation trends. The fact is that most cases attempting to impose climate change damages have not succeeded.	American Property Casulty Insurers Association	Dave Snyder	Vice President
31	3.5 Risk Management	40	Amendment	This paragraph should recognize that property casualty insurers are generally subject to very low levels of liquidity risk for many reasons, including that their investment portfolios are highly liquid and that cash flow needs are generally covered by operating income.	American Property Casulty Insurers Association	Dave Snyder	Vice President
32	3.5 Risk Management	41	Amendment	This paragraph well illustrates the difficulty of assessing transition risks, at it suggests considering "policy measures, market sentiment, technology, severe weather events or gradual changes in climatic conditions" as well as a "meaningful price on carbon". While some companies may have the resources to attempt these kinds of predictions, many companies do not, especially over long time horizons. Overly long time horizons also contribute to the practical difficulties and reliability issues involved.	American Property Casulty Insurers Association	Dave Snyder	Vice President
33	3.5 Risk Management	45	Deletion	This paragraph indicates that insurers should consider climate developments "around the world". While this may certainly be relevant and material to companies that operate globally, such developments are not directly relevant to many purely domestic companies.	American Property Casulty Insurers Association	Dave Snyder	Vice President

34	3.5 Risk Management	46	Amendment	This paragraph appears to undermine the essential concept of risk-based pricing, which sends critically important signals about comparative risk and the need to mitigate it. Risk-based pricing is also fundamental to solvency, competition, and innovation. Depending on the facts, some risks may become uninsurable, or insurable only at a cost and under conditions that may not be deemed affordable by some consumers. Disallowing risk-based pricing actually works against the goal of the guidance to encourage the recognition, assessment and mitigation of climate risk. In addition, the legal and anti-trust contexts in which we operate are also very relevant. So, anything that suggests a boycott should be deleted from guidance.	American Property Casulty Insurers Association	Dave Snyder	Vice President
35	3.5 Risk Management	47	Clarification	This paragraph again presents the complexity of assessing transition risks. Considering all of the social and political aspects of transition risks, we do not know how all but the most sophisticated companies can engage in scenario analysis involving transition risks.	American Property Casulty Insurers Association	Dave Snyder	Vice President
36	3.5 Risk Management	48	Amendment	This paragraph appears to address risk-based pricing in a manner that is inconsistent with the concept of such pricing.	American Property Casulty Insurers Association	Dave Snyder	Vice President
37	3.5 Risk Management	49	Amendment	We agree with the importance of considering physical risks in investments and would add a similar comment on the importance of considering physical risks in underwriting.	American Property Casulty Insurers Association	Dave Snyder	Vice President
38	3.5 Risk Management	50	Deletion	The ORSA should remain the company’s own assessment of its risks. We do not support regulatory mandates such as are set forth in this paragraph.	American Property Casulty Insurers Association	Dave Snyder	Vice President
39	3.5 Risk Management	51	Deletion	We support the notion that the ORSA need not include consideration of climate risks if they are not material. However, we would not support the notion that this must be justified at any great length.	American Property Casulty Insurers Association	Dave Snyder	Vice President

40	3.5 Risk Management	52	Amendment	We strongly support the statement that the ORSA should be “proportionate to the nature, scale and complexity of an insurer’s business and risk.” However, identifying credible scenarios several years forward is difficult, let alone 30 years. If systematic reporting around long time horizons is required, a clear set of assumptions needs to become available, including how catastrophe model loss frequencies and severities might change. While it might be possible to test them against a company’s existing business, it is very difficult to also extrapolate what policies the business might include at some future point in time. Doing anything more than a qualitative assessment of transition risk would be very difficult based upon the broad description in the document.	American Property Casulty Insurers Association	Dave Snyder	Vice President
41	3.5 Risk Management	53	Clarification	We agree that reporting should be either at the legal entity level or the group level depending on which is most relevant to the company’s structure and governance.	American Property Casulty Insurers Association	Dave Snyder	Vice President
42	3.6 Scenario Analysis	54	Amendment	For reasons which the guidance well sets out in the political and social components of transition risks, scenario analysis of climate risks is complicated and resource intensive at best and is something beyond the capabilities and materiality of many companies. For these reasons, we raise concerns about the statement that: “DFS expects climate change scenario analysis to be embedded in insurers’ corporate governance structures, risk management practices and ORSAs.”	American Property Casulty Insurers Association	Dave Snyder	Vice President
43	3.6 Scenario Analysis	55	Clarification	This paragraph should clearly recognize materiality and proportionality considerations.	American Property Casulty Insurers Association	Dave Snyder	Vice President
44	3.6 Scenario Analysis	56	Deletion	The statement that “For transition risks, strong government policy or a technology break-through” should be considered in scenario analysis illustrates the difficulty of scenario analysis of transition risks. The impact of changes over a time horizon defined as “decades” may not be material or realistic for many insurers.	American Property Casulty Insurers Association	Dave Snyder	Vice President

45	3.6 Scenario Analysis	57	Clarification	The clarification that the scenario may not be a precise forecast is helpful and therefore may need to be qualitative. Compliance is going to be difficult for all, but especially smaller or regional players. With regard to scenarios, the inputs have not been decided so compliance would require assumptions built on assumptions.	American Property Casulty Insurers Association	Dave Snyder	Vice President
46	3.6 Scenario Analysis	58	Amendment	We think it is a very broad statement to say that "climate risks are not always reflected in asset prices", given that ESG investing is a very popular concept and that reasonable investors should be including their view of climate risk in their view of asset prices. "May not always be fully reflected" is a more appropriate statement in our view.	American Property Casulty Insurers Association	Dave Snyder	Vice President
47	3.6 Scenario Analysis	60	Clarification	We appreciate the flexibility of this paragraph in that qualitative analysis may be appropriate and necessary.	American Property Casulty Insurers Association	Dave Snyder	Vice President
48	3.7 Public Disclosure	62	Deletion	We strongly oppose public disclosures of prospective liability risks. Such public disclosures would be entirely speculative, would contravene the duty to defend in insurance contracts and would potentially help create liability where it does not exist. In addition, because so much of the disclosures would be based on assumptions for overly long-time horizons, much of it would be both problematic to generate and to be appropriately understood.	American Property Casulty Insurers Association	Dave Snyder	Vice President
49	3.7 Public Disclosure	63	Deletion	Setting a target of 2 to 3 years for quantitative reporting for all companies is not realistic. Significant amounts of additional resources, data and information would need to be made available to many companies.	American Property Casulty Insurers Association	Dave Snyder	Vice President
50	3.7 Public Disclosure	64	Deletion	The requirement to publicly disclose materiality assessments including quantitative assessments is unrealistic and unproductively burdensome. We note that materially assessments are based on both quantitative and qualitative factors and that reliance on long term assessments that may not be reliable creates significant risks in the assessment process.	American Property Casulty Insurers Association	Dave Snyder	Vice President
51	3.7 Public Disclosure	65	Amendment	This paragraph should also refer to the NAIC Climate Risk Disclosure Survey including future revisions, if any. And it should specifically allow TCFD reporting at the group level.	American Property Casulty Insurers Association	Dave Snyder	Vice President

The American Property Casualty Insurance Association (APCIA) represents a broad and diverse membership of nearly 1200 insurers and reinsurers with a wide range of sizes, expertise, resources, and business models. Many of those companies are based in New York State and have demonstrated a long commitment to the well-being of the people and enterprises of the State. For these reasons, we much appreciate the inclusive and careful way by which the Department of Financial Services has drafted and sought input on its proposed climate risk guidance. We especially note its applicability and strongly support the emphasis on proportionality, materiality and flexibility.	American Property Casulty Insurers Association	Dave Snyde r	Vice Presiden t

General CommentsThe insurance industry is financially strong, competitive, and innovative. In addition, the industry is managing its exposures to risks, including the risks presented by climate change, through various means, including risk-based pricing, underwriting and mitigation assistance to its customers and to the public at large. Maintaining these positive aspects of our insurance system are and should be a major objective. (Re)insurers have long helped societies identify, mitigate, and adapt to risks of many kinds, including climate risk. While we have a role to play, the insurance sector cannot alone achieve the climate risk objectives that have been set. Last December, the APCIA Board adopted a set of environmental principles that direct our response to the draft guidance. These principles are: • Risk mitigation must continue to be a shared priority. • Insurers have a unique role in facilitating a more environmentally resilient economy by making capital and protection available to industries as they transition to a lower carbon future. • Insurers should be proactively engaged in efforts to address long-term weather-related losses. • Insurers should consider what existing information can be disclosed as voluntary alternatives to regulation. • Environmental policies and actions should be science-based, provide benefits that outweigh costs, and contribute to job creation and economic growth. • While voluntary actions are preferred, regulation with regard to environmental issues should be proportional and flexible (not one size-fits-all), be based on materiality and respect confidentiality.• Environmental risk-based pricing should be protected. • Regulators should fully support innovation and modeling for insurance.In short, the principles reflect a market-based and cooperative approach with public policymakers to address climate related issues. Our comments are submitted in the context of this Board direction. Regulatory guidance or mandates, including governance, stress and scenario analyses and public disclosures, should be considered only in the context of achieving the core regulatory objective of solvency regulation, while supporting innovation and competition. Recognizing the wide range of business models within the membership of APCIA, some of our members have expressed general support for the guidance, while others have expressed deep concern about its relevance and cost to them and ultimately to their customers. One member wrote that: “The biggest concern for smaller insurers is that regulation is not so onerous that we can’t preserve a competitive market…If there is no real guiding purpose within reason, in the end, only the largest can afford to comply and that significantly reduces choices for consumers.” For this reason, the references to proportionality in the guidance is much appreciated. We also appreciate statements in the guidance that allow for qualitative analyses, that illustrate the complexity and difficulty of assessing and acting on transition risks and that discuss issues relating to time horizons. Fundamental and cross-cutting issues discussed in the guidance demonstrate the importance of continuing dialogue. Among these issues are proportionality, time horizons, recognition of different company structures, monitoring and auditing, scenario analysis and stress testing especially with regard to transition risks, what should be disclosed to regulators for what purposes and what can and should be publicly disclosed weighing costs as well as benefits in the context of competitive concerns.	American Property Casulty Insurers Association	Dave Snyder	Vice President
Fundamental and cross-cutting issues discussed in the guidance demonstrate the importance of continuing dialogue. Among these issues are proportionality, time horizons, recognition of different company structures, monitoring and auditing, scenario analysis and stress testing especially with regard to transition risks, what should be disclosed to regulators for what purposes and what can and should be publicly disclosed weighing costs as well as benefits in the context of competitive concerns.	American Property Casulty Insurers Association	Dave Snyder	Vice President

Thematic comments from a member: • We would recommend that the DFS acknowledge that if an insurer has a current risk framework in place to tackle climate risk that would be sufficient. • Scenarios for testing would look very different based on size and geographic footprint of each insurer; what does each insurer use as a baseline for testing and science? • What is the timeline expected by the DFS for a quantitative analysis; is it evolutionary as science and modeling improves? • What is the DFS trying to establish with a 30-year time horizon? 1-3 years is sufficient for P&C climate risk management at this point in time for certain hazards when thinking about physical risk analysis. • Which science, assumptions, hazards, and pathways are being considered? There is not enough information or detail in the guidance for insurers and that could lead to inconsistency in reporting. • Are all components of risk being considered for scenario analysis, including hazard, vulnerability, and exposure changes? If not, why, and what is the aim of the DFS in terms of keeping some items unchanged? • What is the DFS intending to accomplish with scenario analysis and stress testing over long periods, which are uncertain due to lack of defensible science, data and relevant modeling and can the DFS provide more detail around inputs required and outputs expected for stress testing? • We strongly support consistency in regulatory frameworks for climate risk globally to enable consistent reporting and analysis which should be risk-based. Our preference is the TCFD framework. • We would support the Board guiding and having oversight and awareness on climate risk but not managing such risk. • Our experience with the PRA and UNEP FI PSI shows severe limitations and limited benefit in long-term scenario analysis when considering the timeline that we manage our business to and our ability to reduce/mitigate risk through portfolio construction and underwriting.	American Property Casulty Insurers Association	Dave Snyde r	Vice Presiden t
Thematic comments from another member: • Timeframe for compliance with the guidance—staged implementation taking into consideration the insurer's individual exposure to climate risk. • Coordination with the industry—to prevent a multiplicity of requirements from the states. • Organization structure and guidance—should be based on materiality to the insurer. • Monitoring and audit—provide more guidance on how the regulator will proceed, taking into account materiality and proportionality. • Scenario planning—allow entities to design and develop scenario planning fit for the organization's risk profile and provide additional guidance as this develops.	American Property Casulty Insurers Association	Dave Snyde r	Vice Presiden t
ConclusionAPCIA much appreciates the general approach taken by NY DFS on these complex issues and your consideration of these comments. We particularly appreciate the commitment to an on-going dialogue and the recognition of the importance of materiality and proportionality.	American Property Casulty	Dave Snyde r	Vice Presiden t

					Insurers Association		
1	1. Introduction	1,2	Comment	EmblemHealth strongly agrees with the Department that climate change is a critical problem, and that it is our responsibility as good corporate citizens to take all necessary actions to preserve our environment. That is why we have recently taken several important steps, including a "Going Green" corporate initiative to encourage our enrollees and staff to choose paperless options and continue to report the status of identified risks and plans to mitigate these risks to our Board of Directors. We look forward to continuing to work with the Department to advance these goals.	EmblemHealth	Thomas A. Conway	Chief Risk Officer
2	3.7 Public Disclosure	61, 62, 63, 64	Clarification	We request more information to better understand the Department's disclosure requirements and suggest DFS take the size of the insurer and their effects on climate change and sustainability when developing them. We also suggest DFS specify the method of the required disclosure (i.e., report on Company website; report filed with the DFS) in its final guidance.	EmblemHealth	Thomas A. Conway	Chief Risk Officer
3	3.7 Public Disclosure	65	Clarification	While noting the "NAIC Climate Risk Disclosure Survey allowed a TCFD report to be submitted in lieu of responding to the survey in its 2020 cycle", this option was only available to larger insurers (mostly if not all publicly-traded) as they likely had processes in place to produce the TCFD report. This option was not available to smaller private insurers without the staffing levels to produce the TCFD report. We suggest the Department develop appropriate disclosure requirements based on the size of an insurer and whether it is a public or private enterprise that recognize the differential costs of producing a TCFD report. We would be glad to work with you to develop solutions that ensure all insurers are providing the information DFS needs and are appropriately scaled to the size and purpose of the enterprise.	EmblemHealth	Thomas A. Conway	Chief Risk Officer
4	3.7 Public Disclosure	61, 62, 63, 64, 65	Clarification	In addition to the comments above, we suggest DFS phase in disclosure requirements. Doing so will allow the Department to adapt them as the challenges to support preservation change while providing insurers with a greater understanding of DFS's expectations.	EmblemHealth	Thomas A. Conway	Chief Risk Officer
• Suggest the Department include Sustainability along with Climate Change in the Proposed Guidance.					EmblemHealth	Thomas A. Conway	Chief Risk Officer

				• Suggest the Department include Insurer Segment level expectations (i.e., health insurer, life insurer, property and casualty insurer) to assist insurers in establishing processes to meet the requirements of the Proposed Guidance commensurate to the risk by type of insurer.	EmblemHealth	Thomas A. Conway	Chief Risk Officer
1	3.1 Proportionate Approach	13		MSCI has adopted a proportionate approach in its ESG ratings and assign ratings on a AAA to CCC scale based on a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. We use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. With over 13 years of live ratings history, we have been able to examine and refine our model to identify the E, S, and G Key Issues which are most material to an industry. In the past decade, we have observed that most insurance companies in the MSCI ACWI Index have not demonstrated evidence of incorporating climate factors into their risk assessment in a systematic way. In assessing ESG and climate risk, MSCI has found that the use of quantitative rather than qualitative data in assessing ESG and climate risk is important in being able to compare and contrast companies' ESG and climate risk profiles. In our ESG Rating model for the insurance sector, the Climate Change Vulnerability Key Issue is very important for insurers heavily involved in the property & casualty insurance lines of business. We consider insurance companies to be on the front lines of the physical risks of climate change, as the profitability of insurance companies is closely linked to insured losses from high-intensity weather patterns, increased frequency or unpredictability of natural disasters and climate extremes. Further, we consider climate change factors may affect the resilience of insurance company's investment portfolios. The convergence of ESG factors (climate change, social attitudes, institutional governance, technological innovation) will significantly impact the pricing of financial assets and the risk and return of investments and lead to a large-scale+A73 re-allocation of capital over the next decades. The integration of sound ESG principles and taking climate change risks into investment decision-making plays an increasingly important role in attempts to mitigate ESG risks. This may affect the long-term resilience of insurance companies' investment portfolios.	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs

2	3.1 Proportionate Approach	14-15	Amendment	We acknowledge that some insurers may currently lack the data, tools and expertise to take a quantitative approach to managing climate risk.**Source: MSCI ESG Research as of June 16, 2021**However, the most important, and useful, information for MSCI and MSCI's investor clients as users of published information is quantitative metrics, which should be prioritized over qualitative statements. As detailed below (Comment on 3.6 Scenario Analysis), the technology exists today to quantitatively assess the resilience of investment portfolios to climate transition and physical risks under a range of scenarios. These data and methodologies can also be applied to insurance liabilities for certain lines of business.Therefore, if DFS were to propose a more prescriptive approach that prioritizes the shift from a qualitative approach to a quantitative approach over a clearly defined time horizon, the tools would be available to insurers to achieve this objective. Additional policy support and public-private partnerships could be helpful, especially to small insurers with limited resources.	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs
3	3.3 Risk Culture and Governance	19-21	Amendment	MSCI would suggest that DFS considers adding one more aspect on investor engagement and disclosure. The 2021 proxy season has shown that lack of communication and action on climate issues can eventually lead shareholders to take drastic action, such as supporting an activist's director slate at Exxon. It would be helpful to the market if companies: publish regular disclosure (in annual filings or supplemental documents) to the market outlining how the board of directors is overseeing climate risk management and how the company is performing against its climate targets. If there are any changes/adjustments to targets, the company should disclose how and why these are happening.	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs

4	3.5 Risk Management	40, 48 and 49		Based on the company publicly disclosed data collected by MSCI, we note that among the insurer constituents of the MSCI ACWI Index, U.S. insurers outperform the rest of world in listing climate change as a business risk factor (see chart below), but around 20% of U.S. insurers have not explicitly recognized climate change risk in their public disclosed reports and most of these disclosures today consist only of "boilerplate" language absent any insurer-specific details. If climate change risk is not determined to be material for some insurers at the time of assessment, the dynamic nature and long-term uncertainties of climate change and potential policy change could quickly increase risk materiality for insurers and, therefore, incorporation of climate considerations into an insurer's enterprise risk management is an important consideration in our ESG rating assessment.**Source: MSCI ESG Research as of June 16, 2021**	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs

5	3.5 Risk Management	40, 48 and 49		In our ESG Rating model that measures an insurance company's management efforts on climate change risks, we consider it to be critical for insurers to leverage in-house research capabilities and/or external resources to conduct climate change risk assessments so that they can better mitigate physical and transition risks and better price these risks in the marketplace. Based on the company public disclosure data collected by MSCI, we found that among the insurer constituents of the MSCI ACWI Index, U.S. insurers lagged the rest of world with over 60% of U.S. insurers showing limited efforts in conducting climate change research. **Source: MSCI ESG Research as of June 16, 2021** MSCI highlights the guidance to consider strategic risks to a company's capacity to write insurance (paragraph 48), potential correlations between climate change impacts on assets and liabilities (paragraph 49), and potential impacts on liquidity risk (paragraph 40). These are three areas we often find lacking when assessing insurance companies' climate risk management efforts. We have also observed that companies tend to rely on reactive mitigating measures that may not be realistic in an environment of heightened physical risks or low liquidity for high-carbon assets (paragraph 58).	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs

6	3.6 Scenario Analysis	54		We note that there are a range of models currently available in the market to assist investors with their forward-looking scenario analysis. For example, the MSCI Climate Value-At-Risk (Climate VaR) model provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations. The tool provides insights into the potential stressed market valuation of investment portfolios and downside risks, translating climate-related costs into potential valuation impacts. The MSCI Climate VaR model has three main underlying components which investors use separately or in aggregate:• Policy risk: This component aggregates future policy costs based on an end of the century time horizon. By overlaying climate policy outlooks and future emission reduction price estimates onto company data, the model provides insights into how current and forthcoming climate policies could affect companies. • Technology opportunities: This component is based on company-specific data on the patents each company holds related to low-carbon technologies, providing insights into how companies' strategic investments could affect their future competitive positioning in a low carbon economy. • Physical risks and opportunities: This component estimates the impact and financial risk relating to several extreme weather hazards, such as extreme heat and cold and flood risk.	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs
7	3.6 Scenario Analysis	55		MSCI notes that using different models and scenarios leads to results that are not comparable. While this gives insurers some flexibility to choose any model for self-examination, it is important for the market to be able to effectively compare the results of a prescribed scenario analysis on various insurers. In order to achieve this objective, DFS may consider providing insurers with a minimum set of specific climate scenarios to consider. We furthermore suggest that DFS provides examples of acceptable Representative Concentration Pathways (RCPs), Integrated Assessment Models (IAMs) and/or Shared Socioeconomic Pathways (SSPs) that insurer's should utilize during scenario analysis. Further, it would be helpful to prescribe the precise time horizons that the scenario analysis should cover. The NGFS has delivered several examples of acceptable climate scenario modeling characteristics (See: Central Banks and Supervisors Network for Greening the Financial System (NGFS) https://ngfs.net. The most recent set of climate scenarios was published on June 7, 2021: "NGFS Climate Scenarios for central banks and supervisors".	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs

8	3.7 Public Disclosure	61-65		As mentioned above, the most important, and useful, information for MSCI and MSCI’s investor clients as users of published information is quantitative metrics, which should be prioritized over qualitative statements. We would not object to a framework that supplements quantitative disclosures with a qualitative overlay of an insurer’s views on its climate risks and opportunities but “boilerplate statements” should be discouraged in favor of meaningful disclosure that explains how these risks and opportunities are being managed and how they might be expected to impact the company in the foreseeable future. MSCI is fully supportive of alignment of public disclosures that align with the TCFD recommendations, particularly as they pertain to quantitative and forward-looking metrics and targets.	MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs
Climate change is the single greatest challenge humankind has faced and addressing its impacts will require the largest reconstruction of the global economy since the Industrial Revolution. A convergence of environmental, social and governance factors will impact the pricing of financial assets and precipitate a large-scale reallocation of capital. The climate crisis is foremost among those factors, creating economic and investment risks and opportunities on an unprecedented scale. For MSCI and MSCI’s investor clients as users of published information the most important, and useful, information is quantitative metrics, which should be prioritized over qualitative statements.					MSCI ESG Research LLC	Neil Acres	Head - Government and Regulatory Affairs

1	1. Introduction	Box 1: Overview of DFS Supervisory Expectations [Item (1)]	Amendment	In several places, the proposal presents concerns about the nature of a **board's role**. (See Box 1 in the introduction, 19, 20a, 24(g), and 29.) Corporate boards and company management contribute to an organization differently. This idea is embedded in the Corporate Governance Annual Disclosure Model Regulation (CGAD). NAIC Model 306 is an accreditation standard; it was adopted in New York in September 2020 as Insurance Regulation 215 (11 NYCRR 90). Under that regulation, the corporate board is responsible for "oversight." See Secs. 90.3(a)(4)(i) and 90.3(4)(vii) of Reg. 215 (and Secs. 5(B) and 5(E) of the NAIC Model Regulation). To reduce the possibility of inconsistency or confusion, it is important that new guidance and expectations reconcile with existing laws and regulatory structures or are clear about which standards apply. In several instances the proposal appears to blur the role of the board with that of management. A board typically is charged with overseeing management to ensure that they develop and execute on strategies that comply with insurance law and regulations; therefore, NAMIC suggests removing references in the guidance to the board "managing."For example, item (1) in Box 1 after Paragraph 8, states that the "insurer's board should understand and be responsible for managing climate risks." The board typically does not retain responsibility for individual risk items, but rather is the overseer of the management of that risk. NAMIC suggests that if this is included that the sentence be changed to reflect the role of the board to read, "The insurer's board should understand and maintain oversight of management, who is ~~be~~ responsible for managing climate risks."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

2	1. Introduction	Box 1: Overview of DFS Supervisory Expectations [Item (2)]	Amendment	Reference to a **long-term time horizon** is used throughout the proposed guidance. (See Introduction Box 1 Item 2, 16, 19, 22, 28, and 55(b).) This raises numerous questions, especially where 30 years is referenced along with expecting a rapid shift to the approach. Also, the Introduction Box Item 2 references an impact on an insurer's "business environment." It is unclear whether this is the same as a likely impact on an insurer's business. There are several concerns with this premise. These concerns stem from uncertainty: the further out in time, the less certain the situation/results (and therefore the more tenuous it may be for strategic business planning). Further, with insurers already conducting yearly ORSA and stressing events, the DFS proposed guidance introduces confusion. It seems puzzling how aspects of the proposed guidance would align the existing structure (such as the way a 30-year timeframe would fit or even the frequency for producing decisions based on the short- or medium- term horizon). If a domestic insurer files an ORSA, DFS should consider allowing such ORSA filing to be considered sufficient to meet the reporting expected under the proposed guidance. Also, the Introduction Box Item 2 references an impact on an insurer's "business environment." It is unclear whether this is the same as a likely impact on an insurer's business. With these concerns in mind, NAMIC suggests that if this is to be included that the following revision be made to (2): "When making strategic and business decisions, consider the current and forward-looking impact of climate-related factors on its business ~~environment~~ at reasonably appropriate time horizons for the insurer ~~in the short-, medium, and long-term~~."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

3	3.1. Proportionate Approach	14	Amendment	Where common standards and models do not exist and/or are not mature, it is difficult for a **quantitative** approach to be meaningful. Having the ability to have a qualitative approach allows for more freedom to describe and analyze processes to advance deeper thinking about risks. Also, the insurer may be able to point to where the climate risk is incorporated into other existing broader risk assessments rather than being an isolated risk item. Further, consider the kinds of factors from the Handbook that are listed in the last sentence of Paragraph 14. Even if some of these factors were to become more quantifiable over time, things like legal and reputational risk would be more difficult. For clarity, it seems that RBC may be a possible venue for discussion (if the enumerated factors can be quantified). Also, please note that ORSA includes some of these already. For example, Section 2 of the ORSA Summary Report should provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments for each material risk category in Section 1. This assessment process should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale, and complexity of the risks. Examples of relevant material risk categories may include, but are not limited to, credit, market, liquidity, underwriting and operational risks.NAMIC recommends, if Paragraph 14 is going to be included, that the following revision: "As an insurer's expertise and understanding of climate risks develop, DFS expects the insurer's approach to managing these risks to mature. Over time and where appropriate, an insurer's analysis of climate risks and assessment of their materiality for its business should consider shifting from a qualitative approach to a quantitative approach. While a qualitative assessment may be based on simple models and/or a small set of risk factors, a quantitative assessment may ~~should~~ rely on sophisticated models and/or a broader set of risk factors, which should consider including the following branded risk factors described in the Handbook as appropriate: credit, legal, liquidity, market, operational, pricing and underwriting, reputational, and strategic risks."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

4	3.1. Proportionate Approach	15	Amendment	While NAMIC appreciates the importance of a proportionate approach, in application, the discussion around the various **scenarios** (relating to future use of fossil fuel-based energy) that insurers should assess should be expanded. Importantly, because it is a test of a hypothetical, framing Paragraph 15 around how performance "will" be impacted does not reflect the possibility of other unknowns and/or the uncertainty of the projected results. Using "may" would better capture the nature of the review. Scenario analysis is a pre-loss process involving reviewing potential implications of particular hypothetical loss situations, but this process would not occur in a vacuum. As insurers evaluate their investment opportunities, a variety of important considerations are worth noting, particularly as it applies to insurance solvency regulation. Many restrictions and limitations are placed on insurance company investments today. Importantly, the accounting and capital adequacy approaches play a critical role in measuring an insurer's financial condition. Where a particular investment is reported on the financial statement investment schedule matters, it determines the amount of additional capital (RBC) the insurer will be legally required to hold on its balance sheet against that investment. The riskier the asset, the more capital is required to be held. (Note: N.Y. INS.LAW §§ 1401 to 1415 (1984/2013) is based on NAIC Model 280 "Investment of Insurers Model Act: Defined Limits Version." Under Section 1402 outlining minimum capital or minimum surplus to policyholder investments (Paragraph B (1) – (4)), "not less than sixty percent of the amount of required capital or surplus to policyholder investments shall consist of the types….") Insurers are also limited to the amount of admitted assets allowed in certain types of investments, for example, equity holdings or foreign investments. Further, insurers are limited in the amount of exposure to risky investments, regardless of the reasons why they are risky. The majority of an insurer's investment portfolio is typically made up of debt securities which are rated by the NAIC Securities Valuation Office for credit quality and assigned a designation. Many state laws restrict the amount of lower-grade securities that can be held by an insurer. Because climate change risks/impacts may already be incorporated into the company's risk management approach today, there should be flexibility to continue to use and build upon that foundation.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

				It is important to consider these points in any scenario/stress testing construct and to remember that these limitations were put in place to protect the policyholder. NAMIC recommends that if included, Paragraph 15 be revised as follows: "An insurer that is developing a climate risk approach or model may need more time to incorporate it into its risk management function, or to establish an adequate control environment. That insurer should start by qualitatively analyzing the impact of climate risks on these branded risk factors for its business lines and assets. In addition, if not already considered elsewhere, it should consider assessing how its business (both assets and liabilities) may ~~will~~ perform under various scenarios.~~, s~~Such scenarios may include ~~as~~: (1) an orderly transition that phases out fossil fuel-based energy and transportation with minimum financial market disruption and a limited increase in natural disasters; (2) a disorderly transition with a large financial market disruption and a limited increase in natural disasters; (3) a disorderly transition with a drastic increase in natural disasters; and (4) no transition (as the economy continues to use the same amount of fossil fuel) with a drastic increase in natural disasters; and/or (5) other situations as the insurer considers appropriate for the nature, scale, and complexity of the risk and their business."			

5	3.1. Proportionate Approach	16	Amendment	Reference to a **long-term time horizon** is used throughout the proposed guidance. (See Introduction Box 1 Item 2, 16, 19, 22, 28, and 55(b).) Specifically, in Paragraph 16, reference to expecting insurers to shift to a "longer-term view than the typical business planning horizon of three to five years," to "30 years" seems to presume that such time horizon is viable. There are several concerns with this premise. These concerns stem from uncertainty: the further out in time, the less certain the situation/results. While NAMIC members may be able to create longer-term time horizon analyses than a typical business planning horizon of three to five years, it is generally agreed upon that the further out you go in time, the greater uncertainty there is in the results. Further, making decisions based on that information may not make good business sense and it risks blurring the line between regulation and management. It is one thing to create the information for discussion and awareness and for insurance regulators to consider; however, it is an entirely different request to have insurers change course or create new business plans based on these long-term analyses of financial risks and opportunities related to climate change. Until there is greater certainty in the information that is available on climate change and the risks associated with doing business in the current environment, NAMIC members maintain that it is not appropriate to require insurers to "start experimenting" with creating business plans that are outside the scope and nature of their current operations. Scenario analysis should allow an entity to select a time frame that makes sense to it, based on its business model.Further, pushing for experimentation "now" presumes that the insurers with "the most developed climate- related risk profiles" have the information needed to foretell accurately out to 30 years. While climate change risk has transformed over the past 30 years and is expected to shift in some ways over the next 30 years, there is too much uncertainty – for example in what the government and markets may do – to be able to broadly and consistently be compelled to develop and rely on this approach (now or in the near future). Because the analysis is not a one-time exercise, but to be a regular practice, the process can evolve over time and may better capture the ways the landscape is changing. There are also concerns about public disclosures of such experimental speculation. It could be given more reliance and credibility than warranted at this time.NAMIC recommends that, if included, Paragraph 16 be revised as follows: "A strategic response to climate change may requires a longer~~-term~~ view than the typical business planning horizon ~~of three to five years~~. The time horizon for analyzing financial risks and opportunities related to climate change should gradually go beyond the standard three to five years to a medium-term (e.g., ten years) ~~and ultimately long-term (e.g., 30 years) view~~. DFS's expectation for the timing of this progression will depend on the situation of each insurer (in light of the nature, scale, and complexity of the insurer's business), with insurers with the most developed climate- related	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

				risk profiles expected to start experimenting with the longer view~~-term horizon~~ sooner ~~now~~ and other firms at a later point in time ~~in the next two to three years~~. Longer view and experimental efforts need not be disclosed publicly.”			

6	3.2. Materiality	17	Clarification	NAMIC members agree that the quantification of climate risks is still in the developmental stages, and the data and models that may be used in the future are largely unavailable today. The concept of **materiality**, though, needs to be clearly defined in the final regulation. Although the proposal includes the suggestion that materiality be defined as meaning 5% of surplus or one-half of 1% of total assets, there are some references throughout the proposal that state some risks are material, regardless. For example, the opening sentence of the introduction states, "climate change poses wide-ranging and material risks to the financial system," without qualification. In Paragraph 25, it explicitly states, of insurers already exposed to climate risk, that those risks are "expected to have a material impact on the business environment in which they operate." For clarity and consistency, it would seem worthwhile for DFS to look to ORSA's materiality, as it expects that climate risk is already considered as part of an insurer's overall ERM and ORSA (conducted annually where applicable). Further, as concepts like materiality are considered and new models to measure climate risk impacts are being tested, it is important that the discussion around quantifying risk and utilizing models recognizes the current Risk-Based Capital (RBC) requirements that factor in some of the physical impacts of climate change (hurricane and earthquake risk and soon to be wildfire risk). As you know, RBC provides a trigger mechanism with established intervention points that is measurable on an annual basis and includes a separate charge for catastrophe risk; therefore, RBC offers a measuring apparatus for certain impacts emanating from climate risk. This key solvency tool provides the domestic regulator with key insight as to the solvency health of an insurer in real time. These concepts should be leveraged in the proposed guidance when discussing and developing regulation of a singular risk such as climate change. The catastrophe risk charge, also referred to as "RCAT" is calculated on a net basis and includes projected losses modeled using one of five NAIC-approved catastrophe models. Insurers can use their own catastrophe model if approved by the regulator. In addition, the charge includes a corresponding contingent credit risk charge for certain categories of reinsurance (another climate-related risk factor). The calculation is based on the worst year in 100, but insurers must also disclose data for the worst year in 250 and 500 years. The RCAT charge is applicable to all insurers in "catastrophe-prone areas in the U.S." as defined in the 2020 NAIC RBC Instructions for both hurricane and earthquake risk or fire following earthquake. RBC is more than just an intervention mechanism, the quarterly and annual financial statement filings for which RBC is based off of, contain a large amount of	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

				information which regulators can act upon. The proposed guidance should factor these valuable solvency tools into their needs assessment.			

7	3.2. Materiality	17	Amendment	Paragraph 18 seems to be sending inconsistent messages about **materiality**. On the one hand, in the first and second sentences, the Handbook is given as a resource for benchmarks. On the other, in the third sentence, it appears that the Handbook standards may be questioned. On the matter of materiality, kindly consider the long-standing approach to materiality found in *Basic Inc. vs. Levinson*, 485 U.S. 224 (1988), in which the Supreme Court reiterated the *TSC Industries* standard of materiality, stating that something is material if there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by a reasonable investor as having significantly altered the 'total mix' of information made available." The SEC's mandatory disclosure regime is based off the Court's decision that ultimately concluded that materiality "will depend at any given time upon balancing of both the indicated probability that the event will occur and the anticipated magnitude of the event in light of the totality of the [entity's] activity." By analogy, by allowing insurers to reference the Handbook standards for materiality and to make adjustments based on whether information is both reasonable and decision-useful for the end-user (e.g., insurance regulator) should continue to be the standard going forward. NAMIC recommends that if included, Paragraph 18 be revised as follows: "The Handbook provides guidance for determining materiality in the examination context.4 When assessing the materiality of climate risks, insurers may use the Handbook's materiality benchmarks (e.g., 5% of surplus or one-half of 1% of total assets), subject to adjustment based on professional judgment and circumstances. ~~However, insurers should recognize that certain risks may be material, regardless of their numerical impact, based on external factors such as the industries in which an insurer operates or investor expectations.5 These types of risks could include exposure to natural disasters that are strongly influenced by climate change for property/casualty insurers, and exposure to geographies and sectors that have high transition or physical risks for life insurers.~~"	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

8	3.3. Risk Culture and Governance	19	Amendment	In several places, the proposal presents concerns about the nature of a **board's role**. (See Box 1 in the introduction, 19, 20, 24(g), and 29.) Corporate boards and company management contribute to an organization differently. This idea is embedded in the Corporate Governance Annual Disclosure Model Regulation (CGAD). NAIC Model 306 is an accreditation standard; it was adopted in New York in September 2020 as Insurance Regulation 215 (11 NYCRR 90). Under that regulation, the corporate board is responsible for "oversight." See Secs. 90.3(a)(4)(i) and 90.3(4)(vii) of Reg. 215 (and Secs. 5(B) and 5(E) of the NAIC Model Regulation). To reduce the possibility of inconsistency or confusion, it is important that new guidance and expectations reconcile with existing laws and regulatory structures or are clear about which standards apply. In several instances the proposal appears to blur the role of the board with that of management. A board typically is charged with overseeing management to ensure that they develop and execute on strategies that comply with insurance law and regulations. NAMIC members agree that the board should understand and oversee the relevant climate risks associated with the company. However, NAMIC believes it is more typically the role of management (rather than of the board), to "assess relevant climate risk" or "to address…these risks within the insurer's overall business strategy and risk appetite." Therefore, NAMIC suggests amending the second sentence by striking the reference "assess" and "address" from the responsibilities of the board. Also, as mentioned in earlier comments, the board's role should be charactered as "oversight." NAMIC recommends that, if including Paragraph 19, it be revised to read: "The Handbook lays out the components of an effective corporate governance program. Consistent with the Handbook, DFS expects an insurer's board of directors (or an appropriate committee thereof) or, if there is no board, the governing entity ("board"), to understand ~~and assess~~ relevant climate risks, and to ~~address and~~ oversee these risks within the insurer's overall business strategy and risk appetite. The board's <u>oversight</u> approach should reflect an understanding of the unprecedented nature of climate risks as well as their ~~longer-term~~ impact beyond the standard <u>three to five year</u> business planning horizon."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

9	3.3. Risk Culture and Governance	19	Amendment	Reference to a **long-term time horizon** is used throughout the proposed guidance. (See Introduction Box 1 Item 2, 16, 19, 22, 28, and 55(b).) This raises numerous questions, especially where 30 years is referenced along with expecting a rapid shift to a different business planning approach. There are several concerns with this premise. These concerns stem from uncertainty: the further out in time, the less certain the situation/results. NAMIC recommends that, if including Paragraph 19, it be revised to read: "The Handbook lays out the components of an effective corporate governance program. Consistent with the Handbook, DFS expects an insurer's board of directors (or an appropriate committee thereof) or, if there is no board, the governing entity ("board"), to understand ~~and assess~~ relevant climate risks, and to ~~address and~~ oversee these risks within the insurer's overall business strategy and risk appetite. The board's oversight approach should reflect an understanding of the unprecedented nature of climate risks as well as their ~~longer-term~~ impact beyond the standard three to five year business planning horizon."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
10	3.3. Risk Culture and Governance	20	Amendment	In several places, the proposal presents concerns about the nature of a **board's role**. (See Box 1 in the introduction, 19, 20, 24(g), and 29.) Corporate boards and company management contribute to an organization differently. For example, the first sentence in Paragraph 20 states, "DFS expects insurers to designate a member or committee of the board, as well as a member of senior management most suited to the task within the insurer's organizational structure and given the insurer's climate risk profile, as responsible for the insurer's assessment and management of climate risks." Given that the board has oversight responsibility, NAMIC believes this is generally falls within the role management and is not typically required of the board. Further, to allow for more flexibility and to be inclusive of the appropriate governance structures that organizations deploy, the guidance need not take a one-size-fits-all approach in how insurers address climate change risk. NAMIC members suggest that there could be multiple ways to satisfy the requirements. NAMIC recommends that, if including Paragraph 20, it be revised to read: "DFS expects insurers to designate ~~a member or committee(s) of the board, as well as a~~ member(s) of senior management most suited to the task within the insurer's organizational structure and given the insurer's climate risk profile, as responsible for the insurer's assessment and management of climate risks. As climate change could impact multiple business units and require expertise from multiple functions, one option (although not the only one) is to have an internal risk committee of senior management charged with understanding the changing risk landscape and identifying potential ways to address climate risks."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

11	3.3. Risk Culture and Governance	21	Amendment	In looking at the **board's role**, throughout the guidance, and in particular in the Board Governance section, statements are made to suggest certain risk management frameworks or oversight processes are not adequate and that a separate and solely focused framework is the preferred method. Some enterprises have a distributed risk model in which many areas handle components of climate change risk versus the proposal which suggests that a single committee or member of senior management be responsible for climate risks. The need for flexibility is critical in this area and the guidance should reflect that not all groups are structured the same and that climate change risk may reside in more than one committee within a group. If DFS includes the first two sentences of Paragraph 21, NAMIC recommends (consistent with the response to Paragraph 20) that it be revised as follows: "Some insurers may determine, after a thorough assessment, that climate risks are not material to their businesses. However, because of the changing nature of those risks, those insurers should still consider designating a~~ member(s) or committee of the board and a~~ member(s) of senior management to be responsible for climate risks.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
12	3.3. Risk Culture and Governance	21	Amendment	Issues of **materiality and specificity** in Paragraph 21 present additional concerns. The detail around the carbon tax is narrowly focused and prescriptive rather than allowing enough flexibility to analyze the matter. ~~If DFS includes the last three sentences of Paragraph 21, NAMIC recommends that it be revised as follows: "For example, t~~The concentration of an insurer's investments in companies considered vulnerable to transition risks in the current regulatory environment might be below the materiality threshold set by an insurer. B~~ut if a meaningful national carbon tax (e.g., $200/ton CO2-equivalent) is adopted and more companies are considered vulnerable to transition risks, that threshold could easily be met. Ensuring that the board and senior management stay abreast of evolving climate risks is critical.~~"	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

13	3.3. Risk Culture and Governance	22	Amendment	Similar to comments from Paragraph 21, NAMIC believes Paragraph 22 would benefit from being expanded to allow for additional **flexibility** to how insurers formulate their risk appetite statement and ultimately how they share that with the Board. While NAMIC agrees that understanding the "risk appetite statement" is critical for the board in assessing how that aligns with the risk strategy set by senior management, this could be satisfied in a number of different ways. By providing more flexibility, the guidance would be open to the possibility that a board or board committee has the delegated authority to adopt a written risk policy. As drafted, the proposed guidance seems to frame just a single approach which goes beyond what a typical board may do – and that is to review and evaluate the risk appetite statement to ensure it is closely tied to the organization's strategy. NAMIC suggests that the first few sentences of Paragraph 22, if included, be revised as follows: "DFS expects an insurer to have a written risk policy ~~adopted~~ reviewed and evaluated by its board describing how the insurer monitors and manages ~~climate~~ risks, which would include climate risks, in line with its risk appetite statement. …"	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
14	3.3. Risk Culture and Governance	22	Amendment	Reference to a **long-term time horizon** is used throughout the proposed guidance. (See Introduction Box 1 Item 2, 16, 19, 22, 28, and 55(b).) NAMIC has concerns where long-term may be reflect a DFS expectation for insurers to shift from a typical business planning horizon of three to five years to something like "30 years" (referenced in Paragraph 16). This may presume that such time horizon is viable. There are several concerns with this premise. These concerns stem from uncertainty: the further out in time, the less certain the situation/results. Further, solvency reviews are not static. Review is not a one-time project. NAMIC suggests that the last few sentences of Paragraph 22, if included, be revised as follows: "…The policy should consider including the insurer's risk tolerance levels and limits for financial risks, and consider factors such as: a. ~~long-term~~ financial interests of the insurer, and how decisions today affect future financial risks; b. results of scenario analysis and potentially stress testing for ~~short-, medium-, and long-term~~ reasonably appropriate time horizons for the insurer;...	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

15	3.3. Risk Culture and Governance	23	Amendment	Similar to other comments about a **quantitative approach**, NAMIC believes Paragraph 23 may benefit from additional flexibility to further recognize the data-related challenges. This seems similar to Paragraph 16 in encouraging "experimentation." NAMIC suggests that Paragraph 23, if included, be revised as follows: "~~While~~ DFS understands that quantifying these factors is challenging in light of uncertain, still nascent, and evolving methodologies and data. Nevertheless, depending on the situation of the insurer (in light of the nature, scale, and complexity of the insurer's business), DFS does not dissuade insurers ~~should~~ from starting to experiment with the process, beginning with qualitative assessments and moving towards quantitative assessments over time as available and appropriate. Experimental efforts need not be disclosed publicly."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
16	3.3. Risk Culture and Governance	24(f)	Amendment	To avoid conflating the role of ERM with the role of internal audit, in Paragraph 24(f), NAMIC suggests removing the word "independent." In some cases, the ERM function does not report directly to the board like the internal audit function does. This amendment would help clarify expectations. NAMIC suggests, if including Paragraph 24(f), that it be revised as follows: "f. Conduct objective ~~independent~~, and regular reviews of the functions and procedures for managing climate risks and report the findings of the reviews to the board. Adapt the functions, procedures, roles, and resources for managing climate risks as necessary."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

17	3.3. Risk Culture and Governance	24(g)	Amendment	In several places, the proposal presents concerns about the nature of a **board's role**. (See Box 1 in the introduction, 19, 20, 24(g), and 29.) Corporate boards and company management contribute to an organization differently. This idea is embedded in the Corporate Governance Annual Disclosure Model Regulation (CGAD). NAIC Model 306 is an accreditation standard; it was adopted in New York in September 2020 as Insurance Regulation 215 (11 NYCRR 90). Under that regulation, the corporate board is responsible for "oversight." See Secs. 90.3(a)(4)(i) and 90.3(4)(vii) of Reg. 215 (and Secs. 5(B) and 5(E) of the NAIC Model Regulation). To reduce the possibility of inconsistency or confusion, it is important that new guidance and expectations reconcile with existing laws and regulatory structures or are clear about which standards apply. In several instances the proposal appears to blur the role of the board with that of management. A board typically is charged with overseeing management to ensure that they develop and execute on strategies that comply with insurance law and regulations. If including Paragraph 24(g), NAMIC suggests changing the sentence to reflect the role of the board to read: "Develop the skill, expertise, and knowledge required for the assessment and management of climate risks at the level of ~~the board and employees, including~~ senior management. This can be done through a variety of approaches such as new hires, internal training, and/or the use of external consultants. The board should support resource allocation to this effort, as it considers appropriate for the nature, scale, and complexity of the insurer's business and risk."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
18	3.5. Risk Management	28	Amendment	Reference to a **long-term time horizon** is used throughout the proposed guidance. (See Introduction Box 1 Item 2, 16, 19, 22, 28, and 55(b).) NAMIC has concerns where long-term may be reflect a DFS expectation for insurers to shift from a typical ERM time outlook (to an across-the-board 30 years (referenced in Paragraph 16. This may presume that such time horizon is viable. There are several concerns with this premise. These concerns stem from uncertainty: the further out in time, the less certain the situation/results. If including the fourth bullet under Paragraph 28, NAMIC recommends that it be revised as follows: "manage and monitor these risks over a sufficient~~ly long-term~~ horizon appropriate for the nature, scale, and complexity for the insurer's business and review their analysis on a regular basis."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

19	3.5. Risk Management	29	Amendment	In several places, the proposal presents concerns about the nature of a **board's role**. (See Box 1 in the introduction, 19, 20, 24(g), and 29.) Consistent with concerns expressed in the Introduction's Box 1, NAMIC suggests that if Paragraph 29 is to be included the following amendment to the second sentence of Paragraph 29: "Information on these risks from internal and external sources should be systematically gathered and maintained, climate-related risks and opportunities should be documented and reported to senior management, and climate risk indicators and metrics should be periodically reviewed by the board that ~~is responsible for~~ oversees management's climate risk activities."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

2 0	3.5. Risk Manage ment	29	Amend ment	In several places, the proposal seems to suggest that DFS expects insurers to ignore **historical data**. (See Paragraphs 29, 34, 49, and 55.) For example, it is suggested that insurers are, "expected to go beyond using historical data to inform their risk assessment and consider future trends" (Paragraph 29). NAMIC members are concerned that, without further clarity on how an insurer is to go beyond historical data and what is meant by future trends when developing a risk assessment, there may be inconsistency in application. This may ultimately lead to a dangerous precedent which could impact the actuarial opinion of both establishing the reserves target and the rates used to charge premiums (which are typically based on historical data). This may also raise the question of how the regulator actuary will accept rate increases based on hypothetical data versus historical data. Property/casualty insurance is an historical, experience-based model, with risks measured on past experience, and profitability based predominantly on appropriate contract pricing. To place extra emphasis on climate change versus all other risks creates new problems. Through this process, it appears DFS may be creating an environment where the insurer raises capital to meet climate change risk and regulators being willing to accept such increases. NAMIC suggests deleting the last sentence from Paragraph 29.There are several references in the proposal which seem to suggest that DFS expects insurers to ignore historical data. (See Paragraphs 29, 34, 49, and 55.) Paragraph 34 indicates that the "actuarial function should consider the quality and completeness of climate-related data, with the understanding that historical data may not be sufficient to appropriately calibrate premiums or reserves to reflect climate risks.". NAMIC members think moving away from historical loss basis of setting premium rates and reserve estimates may pose several challenges. For example, there may be pressure to use developing information that is somewhat hypothetical, which potentially depends on many assumptions and variables. As DFS has indicated, this is very much an evolving area. Also, as discussed under Paragraph 16, the longer time horizon increases the uncertainty of the data. Also, as it impacts the actuarial opinion of both establishing the reserves target and the rates used to charge premiums, there is some concern about the ability and willingness of the regulator actuary to accept rate increases based on such data focused on future hypotheticals as opposed to historical data. Property/casualty insurance traditionally uses an historical, experience-based model, with risks measured on past experience, and profitability based predominantly on appropriate contract pricing for the risk. To place additional emphasis on climate change versus all other risk factors may create new problems – actuarial science requires being able to price according to the appropriate weight for the applicable factors for the risk (taking into account many considerations, including but not limited to the line of business, nature of the risk, and the duration of the policy). As drafted, it appears DFS may be creating an	National Association of Mutual Insurance Companies	Cate Paolin o / Jonat han Rodge rs	Director

				environment where the insurer raises capital to meet climate change risk and where regulators must be willing to accept use of models as well as premium increases. This is not a certainty. NAMIC suggests that if Paragraph 29 must be included the second to last sentences be revised to allow for more flexibility and certainty as follows: “As discussed in more detail in Section 3.6, insurers should consider using scenario analysis and stress testing to inform the risk identification and prioritization process and understand the ~~short- and long-term~~ climate risks at reasonably appropriate time horizons for the insurer and their business models.			

21	3.5. Risk Management	30	Clarification	Enterprise risk management is a forward-looking analysis of the risks that companies may face in the future. An ERM system usually includes: 1. Risk Assessment – An assessment of the risks a company faces today and could face in the future; 2. Risk Mitigation – A process to determine how to mitigate and follow up with the status of those risks; 3. Risk Tolerance – An estimation of how much risk the company can tolerate; and 4. Economic Capital – The development of a methodology to determine how much capital is needed to address the identified risks. The Own Risk and Solvency Assessment (ORSA) is a process that requires insurers to continuously bolster their ERM practices, and it provides a mechanism for insurers to check the current and future alignment between their risk management policy and their solvency position. It requires insurers to demonstrate a firm understanding of the risks they face. Regulators use the information to evaluate the ability of insurers to manage their solvency risk. Risk-focused financial examinations and annual Enterprise Risk Reports are additional elements of the overall regulatory effort to impact insurance company ERM practices. If insurers are to embed climate into risk analysis, it should be clear that the guidance is not implying that it must be done outside of the ORSA framework. The discussion around ORSA is important for companies that may not already complete an annual ORSA Summary Report, but for companies and groups that have already incorporated ORSA reporting into their ERM framework, the proposed guidance should be clear that using this foundational approach is acceptable. Insurance regulators have been accessing ORSA Summary Reports and Form F Enterprise Risk Reports for years. A key part of the regulatory risk assessment cycle is financial analysis; current guidance that state insurance regulators rely on includes extensive holding company analysis and procedures focused on determining the insurer's maturity level in regard to its overall risk management framework. Today, lead-state regulators focus their ORSA reviews on gaining an understanding of management's self-assessment of its reasonably foreseeable and relevant material risks and understanding the potential impact of those risks by considering stress scenarios and stress testing presented by the insurer. These management assessments are not unstructured, and each company has a different approach to enterprise risk management that aligns with their company structure, strategy, product offerings and	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

				corporate governance among other factors. If regulators attempt to dictate the tools and metrics to use, the timing, the reporting structure and format, or the level of detail required, companies will have significant concerns. Both the ORSA Guidance Manual and the Financial Condition Examiners Handbook state, "the Lead State examiner should not specify the stresses to be performed, nor what should be included in the company's ORSA Summary Report." In those established resources, insurers are called upon to understand their own risks. In contrast, the proposed guidance seems to be prescriptive and about specifics. It appears DFS may be creating an internal inconsistency for those completing an ORSA Summary Report. A one-size fits all approach will water down a very important internal tool for companies and if companies are not encouraged to tailor their program to what works for their own needs it is likely that the ideas generated by the risk management program will not be included in corporate decision-making. All agree that incorporating ERM in corporate decision-making was one of the most important parts of developing ORSA and similar ERM tools.			

22	3.5. Risk Management	34	Amendment	There are several references in the proposal which seem to suggest that DFS expects insurers to ignore **historical data**. (See Paragraphs 29, 34, 49, and 55.) Paragraph 34 indicates that the "actuarial function should consider the quality and completeness of climate-related data, with the understanding that historical data may not be sufficient to appropriately calibrate premiums or reserves to reflect climate risks.". NAMIC members think moving away from historical loss basis of setting premium rates and reserve estimates may pose several challenges. For example, there may be pressure to use developing information that is somewhat hypothetical, which potentially depends on many assumptions and variables. As DFS has indicated, this is very much an evolving area. Also, as discussed under Paragraph 16, the longer time horizon increases the uncertainty of the data. Also, as it impacts the actuarial opinion of both establishing the reserves target and the rates used to charge premiums, there is some concern about the ability and willingness of the regulator actuary to accept rate increases based on such data focused on future hypotheticals as opposed to historical data. Property/casualty insurance traditionally uses an historical, experience-based model, with risks measured on past experience, and profitability based predominantly on appropriate contract pricing for the risk. To place additional emphasis on climate change versus all other risk factors may create new problems – actuarial science requires being able to price according to the appropriate weight for the applicable factors for the risk (taking into account many considerations, including but not limited to the line of business, nature of the risk, and the duration of the policy). As drafted, it appears DFS may be creating an environment where the insurer raises capital to meet climate change risk and where regulators must be willing to accept use of models as well as premium increases. This is not a certainty. NAMIC suggests that if the last sentence in Paragraph 34 is included it be revised to allow for more flexibility and certainty as follows: "The actuarial function may ~~should~~ consider the reasonableness, availability, relevance, quality/reliability, and completeness of climate-related data to supplement ~~with the understanding that~~ historical data (which the actuary may determine is not be sufficient to appropriately calibrate premiums or reserves to reflect climate risks, particularly rapidly evolving ones). DFS will consider such non-historic approach acceptable."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

23	3.5. Risk Management	45	Clarification	As far as managing catastrophe risk, U.S. property/casualty insurers have proven they are capable and up to the task managing this risk. However, Paragraph 45 and other areas of the proposal, seems to imply that insurers should assess/quantify climate change risk in isolation from catastrophe risk. Catastrophe risk is already being managed, through established ERM frameworks and specific roles within individual companies. To avoid duplication, flexibility should be allowed to use existing approaches rather than creating new roles and responsibilities to manage a risk that has an adequate risk framework built (with people currently supporting it).	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
24	3.5. Risk Management	46	Clarification	The proposed guidance may present an unintended consequence when it comes to considering reputational risk. It may be heightened reputational risk through its requirements to engage in scenario analysis/stress testing on 30-year time frame. The idea that property-casualty insurers can provide meaningful information with respect to rates/markets so far out in time, when without sufficient data/information to do so, could result in decisions being made based on faulty information – and they may suffer the consequences. Consider the possibility that insurers might be looked to as experts on risk, given their traditional approach to basing findings on actuarial science. Without sufficient data to support predictions, some may perceive that insurers are implying a confidence in the data/models that does not exist.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

25	3.5. Risk Management	50	Clarification	Enterprise risk management is a forward-looking analysis of the risks that companies may face in the future. An ERM system usually includes: 1. Risk Assessment – An assessment of the risks a company faces today and could face in the future;2. Risk Mitigation – A process to determine how to mitigate and follow up with the status of those risks;3. Risk Tolerance – An estimation of how much risk the company can tolerate; and4. Economic Capital – The development of a methodology to determine how much capital is needed to address the identified risks.The Own Risk and Solvency Assessment (ORSA) is a process that requires insurers to continuously bolster their ERM practices, and it provides a mechanism for insurers to check the current and future alignment between their risk management policy and their solvency position. It requires insurers to demonstrate a firm understanding of the risks they face. Regulators use the information to evaluate the ability of insurers to manage their solvency risk. Risk-focused financial examinations and annual Enterprise Risk Reports are additional elements of the overall regulatory effort to impact insurance company ERM practices.Insurance regulators have been accessing ORSA Summary Reports and Form F Enterprise Risk Reports for years. A key part of the regulatory risk assessment cycle is financial analysis; current guidance that state insurance regulators rely on includes extensive holding company analysis and procedures focused on determining the insurer's maturity level in regard to its overall risk management framework. Today, lead-state regulators focus their ORSA reviews on gaining an understanding of management's self-assessment of its reasonably foreseeable and relevant material risks and understanding the potential impact of those risks by considering stress scenarios and stress testing presented by the insurer. These management assessments are not unstructured, and each company has a different approach to enterprise risk management that aligns with their company structure, strategy, product offerings and corporate governance among other factors. If regulators attempt to dictate the tools and metrics to use, the timing, the reporting structure and format, or the level of detail required, companies will have significant concerns.Both the ORSA Guidance Manual and the Financial Condition Examiners Handbook state, "the Lead State examiner should not specify the stresses to be performed, nor what should be included in the company's ORSA Summary Report." In those established resources, insurers are called upon to understand their own risks. In contrast, the proposed guidance seems to be prescriptive and about specifics. It appears DFS may be creating an internal inconsistency for those completing an ORSA Summary Report. A one-size fits all approach will water down a very important internal tool for companies and if companies are not encouraged to tailor their program to what works for their own needs it is likely that the ideas generated by the risk management program will not be included in corporate decision-making. All agree that	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

				incorporating ERM in corporate decision-making was one of the most important parts of developing ORSA and similar ERM tools.			

26	3.5. Risk Management	51	Clarification	The discussion around ORSA is important for companies that may not already complete an annual ORSA Summary Report, but for companies and groups that have already incorporated ORSA reporting into their ERM framework, it appears to shift significant foundational concepts. For example, the proposal details the identification of risks and stress testing scenarios. Paragraph 51 states, "DFS expects the insurer to document its assessment process, including measurement approaches used, key assumptions made, and outcomes of any plausible adverse scenarios that were run. When evaluating a risk, the insurer should analyze the results under both normal and stressed environments." This seems duplicative for companies with a mature ERM framework that have been identifying risks and applying stress tests (evaluating risk) for climate-related impacts, although they may not necessarily be identified as "climate risk." Those risks and stress scenarios include stock market change stress testing and catastrophic loss stress testing. To conduct separate stress tests only for climate risk would not add benefit beyond what is happening today. Insurance regulators have been accessing ORSA Summary Reports and Form F Enterprise Risk Reports for years. A key part of the regulatory risk assessment cycle is financial analysis; current guidance that state insurance regulators rely on includes extensive holding company analysis and procedures focused on determining the insurer's maturity level in regard to its overall risk management framework. Today, lead-state regulators focus their ORSA reviews on gaining an understanding of management's self-assessment of its reasonably foreseeable and relevant material risks and understanding the potential impact of those risks by considering stress scenarios and stress testing presented by the insurer. These management assessments are not unstructured, and each company has a different approach to enterprise risk management that aligns with their company structure, strategy, product offerings and corporate governance among other factors. If regulators attempt to dictate the tools and metrics to use, the timing, the reporting structure and format, or the level of detail required, companies will have significant concerns. Both the ORSA Guidance Manual and the Financial Condition Examiners Handbook state, "the Lead State examiner should not specify the stresses to be performed, nor what should be included in the company's ORSA Summary Report." In those established resources, insurers are called upon to understand their own risks. In contrast, the proposed guidance seems to be prescriptive and about specifics. It appears DFS may be creating an internal inconsistency for those completing an ORSA Summary Report. A one-size fits all approach	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

				will water down a very important internal tool for companies and if companies are not encouraged to tailor their program to what works for their own needs it is likely that the ideas generated by the risk management program will not be included in corporate decision-making. All agree that incorporating ERM in corporate decision-making was one of the most important parts of developing ORSA and similar ERM tools.			

27	3.6. Scenario Analysis	55	Amendment	NAMIC members agree that an insurers ERM function should include a wide range of scenario analyses and stress testing to be able to fully assess the potential impact of various risks to an insurer's financial condition. These techniques should be appropriate to the nature, scale, and complexity of the insurer. However, the proposed guidance does not afford enough flexibility. For example, it includes regulatory mandates around what types of scenarios must be completed and which specific assumptions should be incorporated. Consider an approach in which using business judgment to assess the best approaches, these decisions best reside with the insurer. Then regulators continue to evaluate the reasonableness of the insurer's analysis given the insurers specific situation. With each insurer empowered to run scenarios that they believe meaningfully stress their financial condition based on their risk profile and nature, scale, and complexity of their operations, appropriate variation should be reflected in the results. Similarly, insurers should be able to choose the assumptions they understand to be most relevant from an impact standpoint. This approach calls on the insurer to be actively thinking through the climate-related scenarios in light of its particular business and risks. Further, to avoid duplication and inconsistency, DFS should consider aligning with ORSA, which already includes such an evaluation.NAMIC suggests if Paragraph 55 is included that it be revised as follows: "Insurers should expand their current scenario analysis practices, which tend to focus on their investments, to also analyze impacts on their liabilities. For example, scenario analyses ~~should~~ may consider:"	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director
28	3.6. Scenario Analysis	56	Amendment	NAMIC suggests, if Paragraph 56 is included, it be revised as follows: "An insurer's scenario analysis ~~should~~ may include:"	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

29	3.6. Scenario Analysis	56(b)	Amendment	Reference to a **long-term time horizon** is used throughout the proposed guidance. (See Introduction Box 1 Item 2, 16, 19, 22, 28, and 55(b).) NAMIC has concerns where long-term may be reflect a DFS expectation for insurers to shift from a typical ERM time outlook (to an across-the-board 30 years (referenced in Paragraph 16)). This may presume that such time horizon is viable. There are several concerns with this premise. These concerns stem from uncertainty: the further out in time, the less certain the situation/results. This is an overall item for clarification. Further, the proposed guidance, particularly around an insurer's scenario analysis, may suggest that the insurance regulator's role goes beyond financial solvency and consumer protection. Instead of ensuring that the insurer is able to meet the promises and obligations made to its current and past policyholders, the proposed guidance suggests that the regulator's role is to also ensure that a private enterprise continues long term. This introduces the going concern concept to insurance regulation, which could redirect focus away from policyholders to whom contractual promises have been made. Most property/casualty contracts have a policy terms of 6 months or one year into the future, promising benefits to their policyholders if an event occurs that results in a covered loss. Historically, the insurance regulator's role focuses largely on ensuring that an insurer remains solvent to meet its obligations to the policyholders with whom it has contracted. It seems that under the proposed regulation, an assessment of an insurer's strategic plans would extend multiple decades into the future. Data and models may not be available or reliable today to consider long-term impact of climate change. It may produce results that are not meaningful given the numerous variables and assumptions involved and the notion that these risks can be national in scope and involve multiple perils. Consistent with the fundamentals of asset/liability management, NAMIC suggests, if Paragraph 56b is included, that it be revised as follows: "An insurer's scenario analysis ~~should~~ may include: b. An ~~long-term~~ assessment of the insurer's exposure, based on its current business model, to a range of different climate scenarios. DFS ~~expects~~ suggests the time horizon of this ~~long-term~~ assessment ~~to~~ be reasonably aligned to the duration and nature of the risk, corresponding ~~be in the order of decades~~ to lines of business or types of investments."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

30	3.7. Public Disclosure	63	Deletion	NAMIC suggests removing Paragraph 63 in its entirety. As a technical matter, the concept in the first two sentences differs from that addressed in the last sentence. For this reason, it seems that these should be separate paragraphs if all the ideas are carried forward in the final guidance.While the first two sentences contain information repeated elsewhere in the document, NAMIC would like to focus on the last sentence which appears to deviate from the purpose of understanding climate risk (as opposed to a "wider economy" outside of insurance). Indeed, some information received on investments is provided on a confidential basis. In these situations, it is not intended for broad disclosure. Again, NAMIC asks DFS to remove the final sentence. In the alternative, it could be amended to read: "As investors, insurers may ~~would~~ benefit from greater climate-related disclosure for understanding of their investment risk.~~in the wider economy,~~ When appropriate, insurers may ~~should consider~~ encourage receipt of such disclosure for assets they are considering investing in ~~through their ownership of financial assets~~."	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

31	3.7. Public Disclosure	64	Clarification	Paragraph 64 includes the language that states "insurers should pay attention to…the different needs of different users of the disclosure." NAMIC members agree that some public disclosure is appropriate and reasonable given the growing interest in climate risk. For example, Paragraph 62 suggests that insurers "should publicly disclose how climate risks are integrated into their corporate governance and risk management, including the processes used to assess whether these risks are considered material." NAMIC agrees that regulators and the public would find this information useful and would add value to the overall supervisory role. As it relates to quantifying risk and putting measurements around the various risks associated with climate change, NAMIC members believe this information is best for regulator-only analysis. For example, the last sentence in Paragraph 64: "If an insurer deems climate risks to be material, the insurer is expected to disclose related figures, metrics, and targets as well as the methodologies, definitions, and criteria used to make that determination" is the type of information that is best for regulator only use. In addition, information as it relates to the long-term impact (which is hard to quantify) of climate change, such as scenario analysis over long-term horizon and or multiple scenarios should not be required to be disclosed publicly. Further, the wording in the second to last sentence of Paragraph 64 appears to require proof of immateriality. The qualitative and quantitative justification for the finding of immateriality (and for materiality in the next sentence) may establish both a significant and uncertain set of expectations and requirements.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

On behalf of its members, the National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity to share thoughts on the New York Department of Financial Services Proposed Guidance on Financial Risks of Climate Change for Insurers (proposed guidance). Many thoughts are embedded in the comments on specific paragraphs. Those are not all being reiterated in the general comments. In addition to substantive considerations, NAMIC would like to emphasize the importance of the **regulatory process**, DFS has mentioned that climate-related issues are part of a dialog with insurers. It is clear that DFS has put much effort into the proposed guidance. NAMIC asks for care and engagement as DFS further expands this next phase of expressing its expectations for New York domestic insurers. Given the scope, depth, and importance of the proposed guidance, NAMIC urges DFS to allow another opportunity for interested parties to comment on the proposed guidance and any revisions as this process moves forward. <u>Practical Items</u>As the process moves forward, there are some practical items DFS might include to provide practical assurances to insurers about the predictability/reasonability of the process, the kinds of data required, and the areas of flexibility in that process. Several concerns are itemized below:• Insurers should be allowed to report annually (rather than quarterly) based on year-end financial information, with reporting timelines not overlapping with the busy first quarter financial reporting or the annual rating agency survey season. • If a domestic insurer files an ORSA, DFS should consider allowing such ORSA filing to be considered sufficient to meet the reporting expected under the proposed guidance.• To the extent that particular qualitative and/or qualitative data points are going to be required at some future points, there must be adequate lead-time. Even absent a need for significant innovation in climate data and tools, major adjustments to internal/external systems, models, analysis, and reporting take time. • While the proposed guidance refers to quantitative analysis over time, to the extent such information must be shared, there should be an opportunity to provide descriptive commentary to further elaborate on and explain the figures. Numbers themselves may not tell the whole story.• While highlighted in comments on specific paragraphs, beyond scanning the horizon, the mandated long-term planning time (looking 30 to 50 years in the future) requirement appears to weight hypotheticals with speculative information. By analogy, it seems akin to asking someone in 1970 to predict what 2000 and 2020 would look like. • Throughout the proposed guidance there seems to be a discussion of materiality. It should be clear whether processes are to apply to immaterial risk or to focus on material risks. Similarly, post-analysis it is not always clear that follow-up actions are to apply only to material risks.Given the magnitude of the items in the proposed guidance, the workability and practicability is of critical importance. NAMIC thanks DFS for any attention to these and other concerns.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

<u>Iterative Approach</u> NAMIC urges DFS approach to climate regulation iteratively, taking into account the practical concerns of insurers. The broad regulatory framework outlined in the proposed guidance – which does not leverage the existing framework and which poses structural problems of seemingly calling for data and modelling tools that may not be relevant/accurate and available/mature – threatens to overwhelm the goal of ensuring that insurers have or are considering integrating governance and processes that consider material climate risk through qualitative approaches. <u>Existing Frameworks, Parties, and Mechanisms</u> Existing frameworks on capital modeling and solvency assessments already require insurers to include all material risks, which includes climate change if applicable to the company's strategy and exposures. In addition, the existing capital framework incorporates climate-related risks by reflecting higher capital charges when larger losses are incurred and when there is an increase in unearned premium reserves. As drafted, there is significant confusion about how the reporting and disclosure called for in the guidance may be duplicative with what is already required under ORSA, TCFD or NAIC Climate Risk Disclosure, and otherwise. By issuing guidance incrementally, major concerns about duplication could be addressed upfront. Beyond this, insurers themselves (and their investments) are also subject to third party assessments through rating agencies which take into account many factors including an insurer's risk management framework and the impacts of risks (including climate and credit risks). As part of the rating process, the agency engages in a rigorous review and will determine whether to downgrade a company (and/or its investments) based on the risks and approach presented. Importantly, this is not without consequence. The amount of capital held depends on this rating. This is a direct and meaningful connection between the risk and solvency. There are other market mechanisms insurers may use to address exposures. For example, property-casualty insurers have the ability to adjust the terms of insurance policies. Also, one of the most significant ways the regulators and insurers may reduce impacts from climate change is through risk-based pricing, as this serves to provide incentives and economic signals.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

<u>Regulatory Framework</u> The U.S. insurance regulatory framework is a robust system, and it is designed to provide continuous regulatory oversight. Financial solvency surveillance includes many regulatory tools and those tools have been designed to incorporate all sorts of emerging risks, and climate risk is no different. These tools need to be examined to evaluate the need to specifically address climate change risk before another tool or filing is created, perhaps unnecessarily. Financial solvency regulators rely upon a "risk assessment cycle" to guide them in developing supervisory plans, prioritizing groups and entities through use of extensive financial analysis tools, executing financial examination and analysis, and reviewing internal/external changes with all the groups and entities they regulate. This system includes risk-based capital rules that are supported by regulatory accounting valuations (statutory accounting) that place particular emphasis on policyholder protection. In fact, the fundamental objective of statutory accounting is to measure solvency; therefore, the existence of readily marketable assets and a conservative valuation approach represent key pillars to this framework and provides ultimate protection to policyholders against adverse fluctuations in financial condition or operating results. This is unique to the insurance industry and different than the banking sector; for example, whose capital rules are designed to focus on depositor protection and the financial stability of regulated entities on a going concern basis. This going concern principle is not applicable to the insurance regulatory accounting framework, because insurance regulators are more appropriately focused on the current total worth of an insurance company in the event of an insolvency or receivership.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

<u>Overall Corporate Governance</u>The process of considering the many risks and components of overall corporate governance is by its nature a broad one to contemplate a broad range of board oversight of the risks that may impact a company and its investments. In places, the proposed guidance may threaten the balance through a prescriptive approach which may focus a board's attention on climate when, based on the specifics of that company, there may be other risks on which attention should be focused. Emphasizing climate risk separately and distinctly and creating separate frameworks and processes that singularly focus on climate risk ignores the existing overall governance framework that has been set up to manage and oversee emerging risks to the financial solvency of an insurer like climate risk, and it risks shifting away from a risk-focused approach of regulating an insurer's financial solvency. Over the years, a governance structure and frameworks have been developed to ensure that insurers have a risk-focused approach in place to direct attention to the risks that should be the priority for the company. While important for insurers to be aware of and to consider risks, companies should be able to determine which are the most important. Insurers are not all the same in the nature, scale, or complexity of their business or risks. Yet, all insurers are in the business of managing their risk.In the broader context, climate is one risk. For many insurers it may be an important risk. Yet, for some insurers it may not be the greatest priority risk. As discussed elsewhere in comments, there are mechanisms and established frameworks for identifying and handling risks. The DFS proposed guidance suggests a shift away from (and possible undermining of) a risk-focused approach by developing insurer/regulator approaches that single out climate change and that treat this risk as a greater concern (regardless of the specifics of a particular insurer's risk analysis). Today, the risk focused approach is determined by the Financial Analyst Handbook and the Financial Examination Handbook. There is an entire review cycle and a process in place. By treating climate separately and with great detail, other risks that may be of great concern may be over-shadowed by the attention required or work generated for climate risks. Ad hoc requirements by risk may weaken the cohesive risk-focused approach.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

<u>Current State of Climate Data and Modelling Science for Underwriting</u> In addition to model-related concerns enumerated in both NAMIC's comments on the proposed guidance paragraphs and NAMIC's General Comments regarding practical items, this General Comment expands on the current state of climate data and modelling science for underwriting. It seems the expectations set forth in the proposed guidance outpace what is possible today. As drafted, the proposed guidance would appear to require significant work in the area of modeling without leading to additional insights into risk. Given current limitations, NAMIC recommends allowing continued use of historic catastrophe models, which an insurer could augment with models/data it determines appropriate to reflect emerging climate risks. While some tools and frameworks may exist and/or be evolving for investment companies, they may not be fit for insurance purposes. Insurance is a different business model (and insurers may look at distinct models and approaches as they consider physical and transition risks). Building and/or investing in a more sophisticated insurance tools may not be something that can happen right away. A NAMIC member shares additional observations below about models. For longer term forecasts (10-50+ years), quantitative modelling is not believed to provide reliable information for business strategy or regulatory requirements, given that the current state of modelling and data is not sufficiently developed to yield results (or a range of outcomes) in which an insurer might have reasonable confidence. Consider a recent peer-reviewed article in the scientific journal Nature Climate Change (Fiedler et al., 2021) which articulated problems with using existing, scientifically accepted climate models to capture climate risk for the property casualty industry. (These are models available through the Coupled Model Intercomparison Project, CMIP, which are publicly available models which have some degree of acceptance within the climate science modelling community.) First, CMIP models may operate best on a much longer time frame than is most relevant to the P&C sector. Specifically, CMIP models may be considered most robust at capturing predicted macro-level changes in climate over very long periods of time (such as 2050 through 2100) – timeframes which are beyond underwriting of risk (which is typically annual). Second, CMIP models capture change on global or continental scale – and are not designed to capture regional or subregional impacts. In contrast, P&C insurers are looking at risks at a much more granular geographic level. Third, CMIP models capture long term changes in average conditions, and not are focused on the extreme events which most impact the insurance industry. In contrast to long-term quantitative assessments, generally speaking at a high level, there may be instances in which near term quantitative assessments of physical risk (0-10 year time frame) may be determined by insurers to provide more accurate, complete, and relevant information for business strategy and regulatory oversight (as a typical timeframe for portfolio steering is 10 years). As insurers consider these assessments and models, they may determine it appropriate for their business to incorporate newer existing climate-related data. One example might be that insurers may choose to consider modifying a standard catastrophe model to incorporate expected sea level rise, as they may find support for a forecast with reasonable confidence over the next 5-10 years (and which may be determined to directly affect storm surge in	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

coastal regions). That said, longer term scenario analysis may be useful to property casualty insurers for other purposes. For example, it may be of value as insurers seek to help their insureds with resiliency preparation (e.g., fortify/retrofit structures – as physical property should be constructed to withstand long term climate risks). Individual insurers may also see a benefit to having an ability to incorporate a long-term horizon scan of physical risk using qualitative assessments, which may yield more actionable and valid information than reliance on models for long term views of risk. Crucially, in longer time scales, risks may emerge or develop in ways that cannot yet be robustly quantified. Limiting climate risk management to only areas that have quantitative tools today may bias responses toward easily-measured risks that may lack a bigger picture view of how changing hazard may intersect with societal response. For example, examination of how changing hurricane risk intersects with building codes and population migration may be helpful to enhance understanding of the expected societal impacts of the hazard and may assist in forming mitigation strategies. Moreover, such qualitative assessments may be augmented with quantitative modelling as iterative improvements to models develop over time. In summary, given the current state of modelling science, an insurer should have the ability to take a qualitative approach with "horizon-scanning" exercises for planning, as such scanning may help develop a fuller picture of where climate risk trends may develop (which may not be captured in quantitative models today). Additionally, to the extent an insurer identifies data which it feels it could use in near term models, it should have the ability to update the models with more reliable information (more probable trends), to use existing tools to bolster the accuracy of the risk assessment (including climate change risks).			

Current State of Climate Data and Modelling Science for InvestmentsIn addition to model-related concerns enumerated in both NAMIC's comments on the proposed guidance paragraphs and NAMIC's General Comments regarding practical items, this General Comment expands on the current state of climate data and modelling science for investments. Today climate models seem to be of limited utility to the property and casualty industry's investment operations.On the investment side, insurers' primary focus should be on managing risks associated with assets that may be directly impacted by climate change and also on considering assets exposed to transition risk (i.e., risks due to policy and technological changes, and/or investor preferences). With respect to assets directly impacted by changes in physical risk, physical risk modeling of investments seems both more basic and heavily constrained by limited information on the physical locations of the investment. For some asset classes, investment operations are better able to ascertain the location – municipal bonds and real estate are good examples. For other asset classes, such as corporate bonds and stocks, assessing physical risks is much more difficult without knowing more about the location of a company's operations, making models of limited utility.With respect to assets exposed to transition risks, today modelling remains very simplistic. For example, due to a lack of company emissions specific information, transition risk models may employ broad assumptions about sectors with little differentiation among individual companies. Use of these broad sectoral assumptions may yield two counterproductive outcomes. First, it may lead to inaccurate assessments of transition risks for an insurer's portfolio. For example, if an insurer holds assets in a company in a sector deemed high risk, those assets may be assumed high risk under the model. For example, this may occur even where the individual company has mitigated its carbon risk, which may in turn lead to poor portfolio optimization. Second, and related, the individual company at issue may be disincentivized to make advances in carbon mitigation, as existing modelling may give them no credit (or incorrect credit) for those changes, even though those changes likely came at a financial cost. Given that the potential for reliance on modeling of transition risks to yield counterproductive results, such modelling should not be mandated (for a business for decision making/portfolio evaluation) and/or relied on by regulators to assess prudential risk. Insurers should have the flexibility to consider approaches to identify data gaps (through auditing transition risk modelling inputs or otherwise) and to compare model outcomes with qualitative assessments to help identify where and how modelling might be improved. From a regulatory perspective, NAMIC urges DFS not to require reporting of transition risk model results, as today the output may not be valid.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

<u>Existing Data Limitations</u> In addition to model-related concerns enumerated in both NAMIC's comments on the proposed guidance paragraphs and NAMIC's General Comments regarding practical items, this General Comment expands on the existing data limitations. Availability of material quality data is vital for informed decision-making. While 'quality' might be defined in many ways, as it relates to data in the context of this proposed guidance, an insurer should have the ability to focus on data that is: (1) measured in a consistent manner (against accepted measurement standards); (2) material to decision-making; and (3) updated appropriately. In a historical context, ESG data (includes climate-related data) is still new. It may take years for users of data to understand its meaning and appropriately use the data to make informed decisions. Respectfully, given seeming challenges with the quality of ESG data, without first addressing structural data infrastructure and quality problems, NAMIC urges against requiring excessive reliance on this data to drive decision-making. There may be real concerns with deriving trends from data sets that cover short periods or that are just a small sub-set of the data points needed to get a complete picture. Providing companies with a better understanding of how the information is going to be used may aid insurers in considering whether information being disclosed is fit for such purpose. It may also allow an insurer to identify if there are other metrics that fit those data needs. Taking action based on required climate disclosures that meet a regulatory requirement rather than on material risks may lead to counterproductive impacts. For example, it seems that many of the companies that produce the most complete carbon emissions data are actually the most proactive within their respective sectors at identifying and mitigating their own carbon footprints (i.e., thinking comprehensively about Scope 2 and into Scope 3 emissions). Their initiative and comprehensive thinking, however, may result in the perception of greater risk if carbon footprint data is taken at face value. In contrast, a company that has done a cursory scan of a few buildings in its operations may at first appear to have a lower carbon footprint, and therefore a lower exposure to transition risk – but its small carbon footprint actually reflects an immaturity in data collection and a potentially greater transition risk. Standardization of expected data collection and quality – which are likely to occur in the future but which have not happened yet – ultimately may help to minimize the extent of such counterproductive outcomes from data disclosure.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

Purpose for Data RequestAs DFS evaluates whether to require certain insurer reporting around climate, respectfully NAMIC asks that several points be kept in mind relating to the purpose for requesting such data. First, in the process of being clear about the reason for the data request, it appears that with respect to underwriting and investments related to fossil fuels, a primary driver for disclosure may be a general public policy purposes – such as disincentivizing certain activities – as opposed to a concern that the activities present a material risk to policyholder protection, solvency, or financial stability. When requests encompass more than normal supervisory objectives, the purpose of the request should be disclosed. Second, as DFS evaluates the scope of disclosure requirements in the broader public policy arena, other public policy goals, including the need for a responsible energy transition, seem important to the big picture. More specifically, where disclosure is aimed at disincentivizing certain activities (as opposed to evaluating material risks related to policyholder protection, solvency, or financial stability), DFS may want to consider the potential broader societal impacts of the proposed guidance such as possible supply disruptions and economic harm to workers, communities, and businesses that are reliant on those sectors. Third, DFS should please be aware of existing data limitations (as described in the General Comment regarding existing data limitations). For example, until measurement and disclosure of carbon emissions becomes required and more standard across the economy, insurers will not be able to provide aggregate emissions data for our underwriting and investment portfolios (i.e., ability to report Scope 3 emissions is constrained). Moreover, to reiterate concerns about counterproductive outcomes, reporting from some insureds and assets may be more robust due to more proactive work, which could lead to incorrect conclusions without critical review.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

<u>Questions Most Relevant to the Property-Casualty Industry</u> Consistent with NAMIC's General Comment on the purpose of requesting the data, NAMIC asks DFS to focus on the questions most relevant to the property-casualty industry in developing proposed guidance to which the industry will be subject. There may be a temptation by some regulators to focusing attention on what current tools can do rather than on insurers' ability to turn to the information that may be most reliable and relevant. An insurer indicated that some regulators have asked some variation on the impacts of changes in frequency of tropical cyclones, since tools to assess frequency changes are readily available. However, it does not appear that the scientific community has come to a consensus yet on the direction of changes in storm frequency, potential magnitude, or time frame of that change. Rather, it was suggested that regulators be urged to focus first on allowing insurers to assess the material hazard changes that happen in the very near term and that reflect science it determines either may have a very high degree of confidence (for some, this might include sea level rise), or has the potential for substantial operational or loss impacts (for some, this might include rapid intensification), or both. These questions should also be aligned to the time horizons that are most relevant to the property-casualty insurance sector (which is short term), rather than being extrapolated from other parts of the financial sector or from infrastructure planning – where these other purposes differ in their need to make decisions over much longer time periods than the property-casualty insurance industry. <u>Public Sector Role in Mitigating Risks and Enhancing Resiliency</u> Finally, turning away from financial services and the private sector to consider the public sector role in mitigating risks and enhancing resiliency, NAMIC did not want to leave the subject of climate and natural catastrophes without mentioning that through educating legislators, municipalities, builders, realtors, residents, and others (alone or together with other agencies), DFS could immediately contribute meaningfully to improving the future resiliency landscape through supporting mitigation of significant risks through forward-looking and strategic decisions in where, how, and with what materials the built environment is constructed in New York. These common benefits are not speculative and they ultimately may connect with the availability and affordability concerns raised in the proposed guidance. NAMIC would be pleased to further discuss resilience and mitigation with DFS.	National Association of Mutual Insurance Companies	Cate Paolino / Jonathan Rodgers	Director

1	2. Financial Risks from Climate Change	9-12	Amendment	We fully agree with the Department's characterization of the physical and transition risks to insurers from climate change. We appreciate that, absent robust risk management, climate risk may be a significant source of financial risk that could negatively impact policyholders and insurance markets. The potentially non-linear, correlated and irreversible impacts of climate risk heighten the need for robust risk management. However, given that the science around climate risk is rapidly evolving, we encourage the development of principles-based risk management guidance and practical, proportionate, dynamic and sequential supervisory approaches to risk management that are data-driven, risk-based and science-based and informed by expert advice and judgment. We encourage the Department to work with its fellow financial services regulators, supervisors and global standard setters to develop a common global climate risk taxonomy. This taxonomy should be designed to be dynamic, in order to reflect the evolving understanding of climate-related risks and economic and technical changes over time.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
2	3.1 Proportionate Approach	13-14	Amendment	We appreciate the Department's recognition that all insurers will need to analyze their potential exposure to climate risk regardless of size. We understand that an insurer's approach to climate risk management should mature over time as its expertise and understanding of these risks matures (Paragraph 14). While quantitative analyses and risk modeling can be enhanced over time, considerable qualitative and judgment elements will continue to be necessary for a complete risk analysis, as is the case for the management of any risk. Further comments regarding risk management are reflected below in the section entitled Risk Management.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

3	3.1 Proportionate Approach	15-16	Amendment	With respect to the appropriate time horizon for analyzing financial risks and opportunities related to climate change (Paragraph 16), we believe that this is a decision best made by the company's senior management based on the activities and risk profile of the firm and the types of assessments and scenarios that are the most decision-useful for the board and senior management. The design of scenario analyses should be industry-driven, providing firms with the flexibility to develop scenarios (or adapt publicly available scenarios such as those developed by the Network for Greening the Financial System) that best reflect their business models and risk profiles. Climate risks do manifest over longer time horizons than many other risks but the decreasing reliability of results over a longer time horizon should be acknowledged, as this should influence the way in which the results of longer-term scenario analyses are used by insurers and supervisors. The Department should consider that robust scenario analysis may rely on data which is not currently available, such as certain forward-looking data from counterparties. Consultation with the industry on the parameters and assumptions used in scenario analysis exercises can be useful in identifying data gaps and avoiding unrealistic expectations regarding the results of these exercises.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
4	3.2 Materiality	18	Clarification	We agree that the standard financial materiality benchmark of 5 percent of surplus or 0.5 percent of total assets may not be appropriate for the assessment of the materiality of climate risk for all insurers. While these benchmarks are useful as a rule of thumb, they do need to be adjusted based on professional judgment, as the Proposed Guidance states.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
5	3.3 Risk Culture and Governance	19-20	Clarification	We agree that all insurers should have a member or committee of the board, as well as a member of senior management with risk oversight accountability that includes climate risk. Whether this needs to be a dedicated board member, board committee and senior manager should depend upon the materiality of climate risk to the company and its specific governance approaches. Insurers should have the flexibility to address climate risk at the group and parent board level if it is consistent with the insurer's overall approach to risk management. Group-level management of climate (and other) risks can be an efficient and effective risk management technique, particularly where multiple entities are engaged in similar lines of business.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

6	3.3 Risk Culture and Governance	21	Clarification	We appreciate that the materiality of climate risk to an insurer can change over time and potentially rapidly. As with other aspects of risk management, the insurer's governance structure should allow for the necessary flexibility to respond in a timely manner to a change in circumstances.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
7	3.3 Risk Culture and Governance	22	Amendment	We encourage some added flexibility in Paragraph 22, which discusses the insurer's written risk policy. We agree that a climate risk policy is an important element of effectively managing climate risks but the adoption of hard limits for financial risks may not always be the optimal approach.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
8	3.3 Risk Culture and Governance	24	Amendment	Paragraph 24 appears to stipulate the establishment of control structures dedicated to climate risk. We encourage the Department to provide the flexibility to insurers to consider climate risk as one of many relevant risks within existing control structures. In addition, with respect to subparagraph h. of Paragraph 24, we encourage the Department to refer to remuneration policies for key individuals with direct responsibility for risk management. We do not believe that the remuneration of employees with no responsibility for or control over climate risk management should be impacted by how effectively those risks are managed by senior risk managers.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
9	3.4 Business Models and Strategies	25-27	Amendment	Section 3.4 should incorporate to a greater extent the principle of proportionality and a sequential, incremental approach to the development of business strategies. Regardless of the size of the insurer, this Section would benefit from a statement that climate risk strategies, risk appetites, and risk management and compliance frameworks are evolving over time and will need to be developed in parallel in a holistic manner. Firms' existing risk management frameworks can be leveraged as a baseline for assessing climate risks as they have been for other emerging risks over the years.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

10	3.5 Risk Management	28-53	Amendment	Section 3.5, as currently drafted, is overly detailed and prescriptive and does not adequately reflect the evolving nature of climate risk management. We acknowledge that climate risk has an impact on a wide range of existing risk factors but the analysis of how physical and transition risks from climate change could materialize for each of these risk factors is an enormously complex task that is just beginning for many insurers. This Section of the Proposed Guidance would benefit from an explicit acknowledgement that the supervisory expectations in this Section reflect a future state of most insurers' risk management. Consistent with our comments above, this Section should provide insurers with the flexibility to address climate risk at the group and parent board level if it is consistent with the insurer's overall risk management. Section 3.5 would benefit from a discussion of climate risk mitigation strategies and techniques. In addition, the regular renewing of P&C and reinsurance policies should be noted.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
11	3.5 Risk Management	29	Amendment	Paragraph 29 provides that information from all reasonably foreseeable and relevant material risks, including climate risks, should be systematically gathered and maintained, identified and prioritized, documented and reported to senior management and periodically reviewed by the board. While we appreciate that the Department expects that insurers will develop their risk identification and prioritization capabilities over time, these statements do not adequately reflect the serious climate data shortcomings and lack of data consistency that limit the decision-usefulness of this information and that could render undue reliance on this information to inform risk tolerances and limits misleading.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
12	3.5 Risk Management	30	Amendment	Paragraph 30 provides specific examples of quantitative measures that could be used; many of these measures are, at present, imprecise or subject to different levels of quantification depending upon the source or the need to employ a significant element of judgment (e.g. the amount of investments in fossil fuel companies that do not have a credible transition plan). Supply chain analysis can be very complicated and dependent on factors unrelated to climate risk (e.g. geopolitical risk).	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
13	3.5 Risk Management	33	Amendment	The proposed direction to insurers to understand the potential current and future impacts of physical and transition risks on their customers, counterparties, investees and potential investees (Paragraph 33) depends on information that may or may not be available from those parties or, even if available, may not always be reliable. As noted in Section 3.3 of the IIF Prudential Pathways Paper, insurers and banks face significant challenges related to obtaining high quality, consistent, decision-useful, quantitative disclosures from third parties. The burden and cost of attempting to proxy this data from public sources or external experts should not be underestimated. Over time, greater recognition and incorporation of climate risk into financial asset prices should help mitigate investment risks.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

14	3.6 Scenario Analysis	29	Amendment	Paragraph 29 calls upon insurers to use scenario analysis and stress testing to inform the risk identification and prioritization process and to understand the short- and long-term climate risks to their business models. We encourage the Department to recognize the important differences between stress testing and scenario analysis and to focus supervisory attention on the latter as part of an insurer's climate risk management framework. Given the early stage of climate scenario analyses, these analyses should be focused on understanding potentially material climate risks, exploratory in nature, and balanced between quantitative and qualitative data and observations, in order to produce reasonably reliable outputs that are decision-useful and that avoid creating a false sense of security and precision in the results.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
15	3.6 Scenario Analysis	53	Amendment	With respect to Paragraph 53, we reiterate our call for flexibility to address climate risk at the group and parent board level when it is consistent with the insurer's overall risk management.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
16	3.6 Scenario Analysis	56	Amendment	Paragraph 56 states that an insurer's long-term scenario analysis should be "in the order of decades." We encourage the Department to revisit this expectation or at least to emphasize the need to rely on qualitative, judgment-based analyses given the inherent challenges of conducting climate scenario analysis over multiple decades.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
17	3.7 Public Disclosure	62	Clarification	We agree with the call for enhanced transparency of climate risk management in insurers' public disclosures and the benefit of more quantitative disclosures over time as data and modelling capabilities develop. We would welcome a globally harmonized approach to climate-related disclosure that would provide useful and consistent data to investors.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
18	3.7 Public Disclosure	63-64	Amendment	We would refrain from specifying a particular deadline for the transition to more quantitative disclosures (Paragraphs 63 and 64), as the development of key metrics1 and targets, as well as the underlying data, may not be sufficiently mature in the two- to three-year timeframe specified in the Proposed Guidance. A careful and iterative approach to disclosure expectations would help to mitigate insurers' exposures to legal risks, as would a specific climate reporting safe harbor for any statements that must rely on data from third parties that are outside of the insurer's control.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

19	3.7 Public Disclosure	61	Amendment	We encourage the Department to coordinate with the Securities and Exchange Commission and listing authorities when designing and developing any disclosure guidance and in light of the need for a specific climate reporting safe harbor. Guidance should reflect the principle of proportionality and should focus on the financial risks that are material and decision-relevant for investors and counterparties, recognizing that materiality is company-specific. Insurers should be encouraged to highlight not only risks but also opportunities that arise from the transition to a low-carbon economy.	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation
Dear Superintendent Lacewell and Dr. Chen: The Institute of International Finance (IIF) and its insurance members are pleased to respond to the Department's Proposed Guidance on Managing the Financial Risks from Climate Change that was issued on March 25, 2021 for public comment (the Proposed Guidance). We agree that the unprecedented nature of climate-related risks presents unique challenges and requires a strategic response by the insurance industry. We applaud the Department's proportionate and incremental approach to climate risk management, which recognizes that the quantification of climate risks is still a developing area with, in many cases, low data availability and quality, and a high degree of modeling uncertainty. We appreciate the Department's acknowledgement of the importance and benefits of supervisory collaboration and coordination on climate risk issues. We encourage the Department to continue to collaborate with global bodies that are addressing climate-related risks in the insurance sector (as well as in the financial services sector more broadly), including the International Association of Insurance Supervisors (IAIS), the Sustainable Insurance Forum (SIF) and the Financial Stability Board (FSB). There is considerable value in striving for alignment in approaches to climate risk at the global level, as well as at the national level through the National Association of Insurance Commissioners (NAIC), while recognizing that regulatory approaches ultimately should be tailored to the companies and markets within the purview of the regulator. The IIF has conducted a significant amount of work on the topic of climate risks. Earlier this year, we published an IIF Paper, Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks (the IIF Prudential Pathways Paper), a copy of which is attached to this response. This paper reflects the perspectives of the IIF's broader membership of financial services firms including insurers and banks. We would be pleased to follow up with you on the observations and recommendations contained in the IIF Prudential Pathways Paper as it relates to the insurance sector. Among other considerations, we note that the insurance business model differs substantially from banking and other financial services business models, and these differences need to be considered in adopting a framework for insurance climate risk. Moreover, the materiality and impact of climate-related risks can vary substantially among insurers and among insurance markets. Specific Comments on the Proposed Guidance					Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

Financial Risks from Climate Change

We fully agree with the Department's characterization of the physical and transition risks to insurers from climate change. We appreciate that, absent robust risk management, climate risk may be a significant source of financial risk that could negatively impact policyholders and insurance markets. The potentially non-linear, correlated and irreversible impacts of climate risk heighten the need for robust risk management. However, given that the science around climate risk is rapidly evolving, we encourage the development of principles-based risk management guidance and practical, proportionate, dynamic and sequential supervisory approaches to risk management that are data-driven, risk-based and science-based and informed by expert advice and judgment.

We encourage the Department to work with its fellow financial services regulators, supervisors and global standard setters to develop a common global climate risk taxonomy. This taxonomy should be designed to be dynamic, in order to reflect the evolving understanding of climate-related risks and economic and technical changes over time.

Proposed Detailed Guidance

Proportionate Approach

We appreciate the Department's recognition that all insurers will need to analyze their potential exposure to climate risk regardless of size. We understand that an insurer's approach to climate risk management should mature over time as its expertise and understanding of these risks matures (Paragraph 14). While quantitative analyses and risk modeling can be enhanced over time, considerable qualitative and judgment elements will continue to be necessary for a complete risk analysis, as is the case for the management of any risk. Further comments regarding risk management are reflected below in the section entitled Risk Management.

With respect to the appropriate time horizon for analyzing financial risks and opportunities related to climate change (Paragraph 16), we believe that this is a decision best made by the company's senior management based on the activities and risk profile of the firm and the types of assessments and scenarios that are the most decision-useful for the board and senior management. The design of scenario analyses should be industry-driven, providing firms with the flexibility to develop scenarios (or adapt publicly available scenarios such as those developed by the Network for Greening the Financial System) that best reflect their business models and risk profiles. Climate risks do manifest over longer time horizons than many other risks but the decreasing reliability of results over a longer time horizon should be acknowledged, as this should influence the way in which the results of longer-term scenario analyses are used by insurers and supervisors.

The Department should consider that robust scenario analysis may rely on data which is not currently available, such as certain forward-looking data from counterparties. Consultation with the industry on the parameters and assumptions used in

scenario analysis exercises can be useful in identifying data gaps and avoiding unrealistic expectations regarding the results of these exercises. Materiality We agree that the standard financial materiality benchmark of 5 percent of surplus or 0.5 percent of total assets may not be appropriate for the assessment of the materiality of climate risk for all insurers. While these benchmarks are useful as a rule of thumb, they do need to be adjusted based on professional judgment, as the Proposed Guidance states. Risk Culture and Governance We agree that all insurers should have a member or committee of the board, as well as a member of senior management with risk oversight accountability that includes climate risk. Whether this needs to be a dedicated board member, board committee and senior manager should depend upon the materiality of climate risk to the company and its specific governance approaches. Insurers should have the flexibility to address climate risk at the group and parent board level if it is consistent with the insurer's overall approach to risk management. Group-level management of climate (and other) risks can be an efficient and effective risk management technique, particularly where multiple entities are engaged in similar lines of business. We appreciate that the materiality of climate risk to an insurer can change over time and potentially rapidly. As with other aspects of risk management, the insurer's governance structure should allow for the necessary flexibility to respond in a timely manner to a change in circumstances. We encourage some added flexibility in Paragraph 22, which discusses the insurer's written risk policy. We agree that a climate risk policy is an important element of effectively managing climate risks but the adoption of hard limits for financial risks may not always be the optimal approach. Paragraph 24 appears to stipulate the establishment of control structures dedicated to climate risk. We encourage the Department to provide the flexibility to insurers to consider climate risk as one of many relevant risks within existing control structures. In addition, with respect to subparagraph h. of Paragraph 24, we encourage the Department to refer to remuneration policies for key individuals with direct responsibility for risk management. We do not believe that the remuneration of employees with no responsibility for or control over climate risk management should be impacted by how effectively those risks are managed by senior risk managers. Business Models and Strategies			

Section 3.4 should incorporate to a greater extent the principle of proportionality and a sequential, incremental approach to the development of business strategies. Regardless of the size of the insurer, this Section would benefit from a statement that climate risk strategies, risk appetites, and risk management and compliance frameworks are evolving over time and will need to be developed in parallel in a holistic manner. Firms' existing risk management frameworks can be leveraged as a baseline for assessing climate risks as they have been for other emerging risks over the years. Risk Management Section 3.5, as currently drafted, is overly detailed and prescriptive and does not adequately reflect the evolving nature of climate risk management. We acknowledge that climate risk has an impact on a wide range of existing risk factors but the analysis of how physical and transition risks from climate change could materialize for each of these risk factors is an enormously complex task that is just beginning for many insurers. This Section of the Proposed Guidance would benefit from an explicit acknowledgement that the supervisory expectations in this Section reflect a future state of most insurers' risk management. Consistent with our comments above, this Section should provide insurers with the flexibility to address climate risk at the group and parent board level if it is consistent with the insurer's overall risk management. Section 3.5 would benefit from a discussion of climate risk mitigation strategies and techniques. In addition, the regular renewing of P&C and reinsurance policies should be noted. Paragraph 29 provides that information from all reasonably foreseeable and relevant material risks, including climate risks, should be systematically gathered and maintained, identified and prioritized, documented and reported to senior management and periodically reviewed by the board. While we appreciate that the Department expects that insurers will develop their risk identification and prioritization capabilities over time, these statements do not adequately reflect the serious climate data shortcomings and lack of data consistency that limit the decision-usefulness of this information and that could render undue reliance on this information to inform risk tolerances and limits misleading. Paragraph 30 provides specific examples of quantitative measures that could be used; many of these measures are, at present, imprecise or subject to different levels of quantification depending upon the source or the need to employ a significant element of judgment (e.g. the amount of investments in fossil fuel companies that do not have a credible transition plan). Supply chain analysis can be very complicated and dependent on factors unrelated to climate risk (e.g. geopolitical risk). The proposed direction to insurers to understand the potential current and future impacts of physical and transition risks on their customers, counterparties, investees and potential investees (Paragraph 33) depends on information that may or may			

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June 23, 2021 Ms. Linda A. Lacewell New York State Superintendent of Financial Services Dr. Nina Chen Sustainability and Climate Initiatives Director New York State Department of Financial Services One State Street New York, NY 10004-1511 Re: Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change Dear Superintendent Lacewell and Dr. Chen: The Institute of International Finance (IIF) and its insurance members are pleased to respond to the Department's Proposed Guidance on Managing the Financial Risks from Climate Change that was issued on March 25, 2021 for public comment (the Proposed Guidance). We agree that the unprecedented nature of climate-related risks presents unique challenges and requires a strategic response by the insurance industry. We applaud the Department's proportionate and incremental approach to climate risk management, which recognizes that the quantification of climate risks is still a developing area with, in many cases, low data availability and quality, and a high degree of modeling uncertainty. We appreciate the Department's acknowledgement of the importance and benefits of supervisory collaboration and coordination on climate risk issues. We encourage the Department to continue to collaborate with global bodies that are addressing climate-related risks in the insurance sector (as well as in the financial services sector more broadly), including the International Association of Insurance Supervisors (IAIS), the Sustainable Insurance Forum (SIF) and the Financial Stability Board (FSB). There is considerable value in striving for alignment in approaches to climate risk at the global level, as well as at the national level through the National Association of Insurance Commissioners (NAIC), while recognizing that regulatory approaches ultimately should be tailored to the companies and markets within the purview of the regulator. The IIF has conducted a significant amount of work on the topic of climate risks. Earlier this year, we published an IIF Paper, Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks (the IIF Prudential Pathways Paper), a copy of which is attached to this response. This paper reflects the perspectives of the IIF's broader membership of financial services firms including insurers and banks. We would be pleased to follow up with you on the observations and recommendations contained in the IIF Prudential Pathways Paper as it relates to the insurance sector. Among other considerations, we note that the insurance business model differs substantially from banking and other financial services business models, and these differences need to be considered in adopting a framework for insurance climate risk. Moreover, the materiality and impact of climate-related risks can vary substantially among insurers and among insurance markets. Specific Comments on the Proposed Guidance Financial Risks from Climate Change We fully agree with the Department's characterization of the physical and transition risks to insurers from climate change. We appreciate that, absent robust risk management, climate risk may be a significant source of financial risk that could	Institute of International Finance	Mary Frances Monroe	Director, Insurance Policy and Regulation

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See the LICONY Letter at the end.	Life Insurance Council of New York, Inc.	Diane D. Stuto	Managin g Director

1	2. Financial Risks from Climate Change	9	Amendment	With respect to chronic risks, we suggest the inclusion of increased average temperatures and sea level rise.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
2	2. Financial Risks from Climate Change	10	Amendment	With respect to transition risk, we suggest the inclusion of the potential introduction of a carbon tax or carbon allowances.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
3	3.1 Proportionate Approach	16	Clarification	Our experience suggests that scenario analysis could be longer than the time horizons typically considered. Relevant time horizons could span several decades, at least to mid-century, and ideally to end of the century, depending on the business models and duration of assets and liabilities of insurance firms. For example, life insurers can have long duration liabilities which span decades. General insurers and reinsurers generally have shorter term business models, but the ongoing insurability of climate risks and hazards is fundamental to the industry's future.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
4	3.3 Risk Culture and Governance	21	Clarification	We believe it would be useful to provide guidance on how how often firms assess the assumptions, materialities and risk exposures given evolving developments. For example, guidance on the frequency with which to reconsider materiality would be helpful (e.g. quarterly, annually or only in the event of a significant change such as enhancements to climate modeling or updated regulations on influential topics such as carbon prices).	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team

5	3.3 Risk Culture and Governance	24	Clarification	We would suggest clarification of whether the term "independent" in this context would also require an external review. If so, it would be helpful to make this requirement explicit. If not, it would be helpful to indicate which function within the company would be suitably skilled to carry out the review and what would be considered independent in this context.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
6	3.4 Business Models and Strategies	25	Clarification	Given that both transition risks and physical risks arising from climate change are unprecedented and long term, ithey are unlikely to be adequately captured in historical data driven calibrations of short term (1 year VaR) capital adequacy. As climate change leads to more extreme and more frequent weather events, we observe that the past is no longer an accurate representation of what the future may hold. For physical risks, in particular, it is crucial to consider forward-looking risk in underwriting processes and strategic direction.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
7	3.4 Business Models and Strategies	27	Amendment	Please note the following typo: 'DFS expects to an insurer to document how its business environment analysis…' change to 'DFS expects an insurer to document how its business environment analysis…'	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team

8	3.5 Risk Management	50	Clarification	We believe it would be important for insurers to assess both the short- and long-term implications of climate change. Financial markets are forward-looking, and with real interest rates near historical lows, the long-term viability of investments and business models are important to market valuations. The physical damages associated with climate change represent an economic externality which markets underprice. Despite the long-term focus of insurers, a more robust understanding of the implications of climate risks for asset valuations will be beneficial. For example, with regards to transition risks, most climate modelling currently assumes equilibrium rather than market conditions for valuation ratios. In contrast, the energy and fossil fuels /coal sectors have underperformed other investments for several years. They are trading on low ratios and are considered undervalued by many industry analysts. This creates a risk that insurers, or their asset managers, reach for yield and see opportunities for outperformance in these sectors. With regards to physical risks, it is important to recognise that historical levels of emissions and lags in the climate system mean that physical risks will likely increase over the coming decades regardless of future cuts in emissions.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
9	3.5 Risk Management	51	Amendment	In the event that climate-related risks are deemed not material, we would encourage organizations to include the justification in the assessment process, including key assumptions made and outcomes of any plausible scenario analysis runs so that this can be reviewed and compared.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team

10	3.5 Risk Management	52	Clarification	We agree that reflecting climate assessment in ORSA analysis should reflect the complexity and scale of the insurer. While some insurers will have been analysing climate change for several years, others are relatively inexperienced. Given this variation, initial undertakings need to be realistic, and then evolve through time. We also note that the economic and financial modelling may not currently cover all of the risks which an insurer needs to quantify. There are several areas of uncertainty (climate sensitivities, the magnitude and exposure to physical damages, sensitivity to abatement spending and carbon taxes, economic losses & consequent financial impacts, socio economic losses) which are of concern/materiality to insurers, but which cannot be represented as standard risks. However, we acknowledge that there are continuous efforts to understand these new risks, which provide a groundwork for developing scenario analysis and integrating additional research as it becomes available. Technical capacity and baseline guidance needs to be built out across the board but existing tools do provide a meaningful starting point.	Moody's ESG Solutions Group	Veroniki Zerva	Institutional Relations, Outreach & Engagement Team
1	3.5 Risk Management	3.52	Clarification	There is significant detail (much more than the PRA by comparison have provided) on specific risk areas, (e.g. credit, operational, market, strategic etc all split out separately). It would be helpul to gain more understanding as to whether this will be mandated or whether it's purely to provide context, despite lots of it being written as an instruction rather than a suggestion? The paper refers to the PRA requirements in the UK but seems to go beyond this and be more prescriptive in its requirements. It is not clear if this is proportionate and reasonable given that many insurers who operate in NY State also operate elsewhere and this could lead to regulatory arbitrage	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
2	3.5 Risk Management	3.5.2	Clarification	The paper specifically comments on the need to consider the correlation between assets and liabilities e.g. minimise hurricane exposed underwriting risks and investments in similar geographies, but does not appear to fully recognise how difficult this would be to do. We beleive that it may be difficult to obtain reliable sources of data on which to base this.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
3	3.5 Risk Management	3.5.2	Clarification	There are several mentions of various items being addressed within the next two to three years so potentially they're aiming for a submission/framework to be in place by 2024. DFS expectation that disclosures will become quant focused with metrics and targets within 2 – 3 years. DFS expectation that insurers with the most developed climate related risk profiles expected to start experimenting with the long-term horizon now and other firms in the next two to three years.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation

4	1. Introduction	8	Clarification	The guidance goes wider than the PRA and addresses broader ESG issues (e.g. the role of insurers in plugging the protection gap and social inequality). This is a very broad statement, going well beyond climate risk management and draws in many wider issues. It would be helpful to understand if this is providing context or would lead to specific requirements.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
5	3.3 Risk Culture and Governance	3.3.3	Clarification	DFS expects insurers to include managing climate risk management strategy alignment to executive remuneration schemes. Without a consensus on metrics, measurement and objectives how this could be done in the short-term, there is a risk that this will offer false comfort with management being incentivized to address climate, but the metrics being poorly selected and not appropriately benchmarked.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
6	3.7 Public Disclosure	3.7	Clarification	"Over the next two to three years, insurers should start specifying key considerations that inform their assessment of the materiality of climate risks for their businesses" - it is not entirely clear what specifically is expected from insurers in this section.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
7	3.7 Public Disclosure	3.7	Clarification	"DFS expects insurers to engage with the TCFD framework and other similar initiatives, including the tools and case studies that they provide, in developing their approach to climate-related financial disclosures." - it is not clear what 'engage with' means - does this mean there is an expectation that insurers operating in NY state issue TCFD reports and align their approach to TCFD?	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
8	1. Introduction	4	Deletion	The prescriptive, detailed expectation about how insurers will embed climate change risk management in their governance, operations and disclosure should be deleted. The appropriate goal is for insurers to fully accept that climate change presents various and potentially material risks to insurers, property and society at large and to incorporate that knowledge into their overall risk management and business model(s).	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
9	1. Introduction	8	Amendment	The role of (re)insurers is to assume and manage risk. The management of climate risks is part of the role and business of insurers. Sometimes management of risk involves mitigation of its cause. Other times, not. Accordingly, we suggest that the term "mitigate" be deleted in this context and be replaced with "manage."	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation

						Charles	
10	1. Introduction	8(3)	Clarification	Exactly how an insurer evaluates and incorporates climate risk into its risk management process should not be prescribed. Also, the ORSA is intended for an insurer to identify and disclose risks that it deems material. Requiring an ORSA to include climate risks not deemed material by the insurer dilutes the goal and benefits of the ORSA process.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
11	3. Proposed Detailed Guidance	15	Clarification	What is DFS expectation regarding scenario and time scale analyses? While a description of examples of different scenarios to consider is helpful, requiring such scenario analyses over different time frames is not necessarily material or helpful.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
12	3.2 Materiality	17	Clarification	This section is overly prescriptive and does not appear to consider the relevance and proportionality of climate risks to the insurer and its business needs. Also the inherent uncertainty about the future suggests that qualitative analyses will continue to be relevant even as quantitative estimates improve.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
13	3.2 Materiality	18	Deletion	This entire section is too prescriptive. See above.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
14	3.3 Risk Culture and Governance	24	Amendment	This section is too prescriptive and alternatively should allow for the proportionate allocation of resources to address climate risk within the organisaiton. See proposed amendment "Create an organizational structure that has or is committed to develop the skill, expertise, and knowledge required for the assessment and management of climate risks, with appropriate involvement of the board and senior management"	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation

15	3.5 Risk Management	53	Clarification	What does "insurers' climate-related policies and procedures should be implemented at the entity level" mean in context or in practice? It would be helpful to clarify how Group-wide programs would be treated within the context of these regulations, where an issuer's lead regulator is not the New York DFS, but the lead regulator may also have climate risk regulations.	Association of Bermuda Insurers and Reinsurers	Suzanne Williams-Charles	Director of Policy & Regulation
1	3.1 Proportionate Approach	13-16	Clarification	Agree that a climate risk approach or model should consider both qualitative and quantitative factors, although shifting entirely from qualitative to quantitative may not always be possible dependent upon the risk. In particular, transition risks will likely be more qualitative in nature as opposed to physical risk during the progression to a low-carbon society. Lastly, a climate risk model will likely differ from an underwriting portfolio to the investment portfolio.	Zurich North America	Lynne Grinsell	AVP
2	3.2 Materiality	17-18	Clarification	Agree that certain risks may be material regardless of their numerical impact, based on external factors such as the industries in which an insurer operates.	Zurich North America	Lynne Grinsell	AVP
3	3.3 Risk Culture and Governance	19,20, 21	Amendment	The proposed DFS Guidance at Section 3.3, as currently drafted, requires insurers to designate one member of senior management responsible for "assessing and managing" all aspects of climate risks. Given the many aspects of climate risk (investment, underwriting, financial, etc.) and the variety of governance frameworks used by insurers, that requirement may be difficult to implement for some insurers, especially larger insurers. We ask that DFS consider the tracked edits to Section 3.3. contained in the attached PDF document to provide insurers more flexibility in this regard.	Zurich North America	Lynne Grinsell	AVP
4	3.3 Risk Culture and Governance	22-23	Clarification	Note that a Risk Policy should be considered a dynamic document subject to change based upon other factors such as market conditions, regulatory changes, company appetite, technology advancements and other.	Zurich North America	Lynne Grinsell	AVP
5	3.3 Risk Culture and Governance	24	Clarification	Agree that the organizational structure should have a focus on climate risk. Note, however, that risks are often considered at a much higher level (such as underwriting risk, operational risk, etc.), and climate risk would be considered a trigger. Carriers would have to develop additional frameworks and structure to do a detailed reporting on just one category of risk.	Zurich North America	Lynne Grinsell	AVP

6	3.4 Business Models and Strategies	25-27	Clarification	While scenario analysis plays an important role in an effective risk strategy, it may not be applicable for some risks - especially transitional risk where the a potential loss scenario may not have even been a consideration. Additionally, please note that while process documentation may exist internally, there is the potential for these analyses to be considered proprietary from a competitor standpoint.	Zurich North America	Lynne Grinsell	AVP
7	3.5 Risk Management	29	Clarification	Generally agree with this approach; however, an explicit focus on climate risk that includes stress scenarios and detailed analysis is at a level of precision that will need to be strengthened. Also see General Comments on Board involvement.	Zurich North America	Lynne Grinsell	AVP
8	3.5 Risk Management	30	Clarification	External vendor models used by carriers continue to evolve and may not currently have the cadence necessary for frequent assessments. Cost benefit considerations should be contemplated over prescriptive modeling requirements as these can prove to be expensive to enable.	Zurich North America	Lynne Grinsell	AVP
9	3.5 Risk Management	33	Clarification	Proper risk management will likely require both client engagement and analysis of data from outside sources, and some of this information may not be readily available.	Zurich North America	Lynne Grinsell	AVP
10	3.5 Risk Management	36	Clarification	While the framework used in the ERM function does look at all of the risks listed, it does not address climate risk as a stand-alone risk driver. Additional frameworks would need to be developed.	Zurich North America	Lynne Grinsell	AVP
11	3.5 Risk Management	37	Clarification	Climate risk factors and interconnectedness of reliance often are not embedded in company protocols. As such, insurers should be provided time and flexibility to develop processes to determine under what circumstances it's appropriate to examine such physical and transition risks faced by their counterparties.	Zurich North America	Lynne Grinsell	AVP
12	3.5 Risk Management	41-43	Clarification	Concur with continuous monitoring the effects of climate-related factors on their current and future market positions including consideration for time-frames.	Zurich North America	Lynne Grinsell	AVP
13	3.5 Risk Management	45	Clarification	The review of pricing natural catastrophes should include an acceptance of more forward looking natural catastrophe models that might emerge from various vendors. Climate change is one area where it will be important to rate for what will happen and not base the rating on what has happened.	Zurich North America	Lynne Grinsell	AVP

14	3.5 Risk Management	45	Clarification	Agree that the effects of climate change should be considered on financial lines, such as D&O and professional liability. Since this exposure has not yet resulted in frequent or severe claims, it is often considered as part of the overall risk picture. Be mindful that certain industries create a greater liability than others.	Zurich North America	Lynne Grinsell	AVP
15	3.5 Risk Management	46	Clarification	Note that the consideration of this risk on a global basis is a complex endeavor.	Zurich North America	Lynne Grinsell	AVP
16	3.5 Risk Management	47-48	Clarification	We believe it is important to allow the exploration of innovative product solutions to help insureds continue to get the protection they need while balancing that with risk mitigation. We suggest that regulations be written or modified to allow innovative solutions to emerge.	Zurich North America	Lynne Grinsell	AVP
17	3.5 Risk Management	45-48	Clarification	It could be helpful to support industry data collection to facilitate study in these areas. Good, publicly available data is important and could help establish some industry norms around statistical coding of claims data. This is especially true because these types of risks lend themselves to using more dynamic pricing models rather than traditional tabular rating plans. When sending risk-based price signals, consideration is given to market share and density. The need for risk-based price signals is to incentivise an insured to take necessary steps to prevent the potential of becomming uninsurable.	Zurich North America	Lynne Grinsell	AVP
18	3.5 Risk Management	50-53	Clarification	As climate risk is an evolving area, continuous refinement of reporting is needed to keep pace with the evolving risk landscape.	Zurich North America	Lynne Grinsell	AVP
19	3.6 Scenario Analysis	54	Clarification	Generally climate as a risk is subject to scenario analysis, however only when the situation warrants and the risk is assessed as material.	Zurich North America	Lynne Grinsell	AVP
20	3.6 Scenario Analysis	55	Clarification	Scenario analyses make sense as a longer-term ambition, and we expect that there are additional areas of data analysis and reporting that will need to evolve further prior to this area being enabled.	Zurich North America	Lynne Grinsell	AVP
21	3.7 Public Disclosure	61-62	Clarification	It should be noted that a proper level of transparency should still allow for protection of information, processes and strategies as to not disclose proprietary risk modeling or pricing. In addition, data availability and data quality on both transition and physical risk are evolving and requires a principle-based and proportionate approach.	Zurich North America	Lynne Grinsell	AVP
22	3.7 Public Disclosure	63-65	Clarification	It is expected that the TCFD framework will be used as a model for developing any climate related financial disclosures.	Zurich North America	Lynne Grinsell	AVP

While we agree that the Board should consider and understand the impact of climate risk on the company, it is the company's management who has primary responsibility for assessing and managing relevant climate risks, as well as making strategic and business decisions about the company's risk appetite (along with all other risks posed to the company). As such, we believe it would be inappropriate and not practical for companies to name a single member or committee of the Board to be responsible for the insurer's comprehensive assessment and management of climate risks (as is currently contemplated in paragraph 20). In addition, the proposed guidance would seem to require the Board to review certain items that are not typical for Board oversight, including those mentioned in Paragraphs 24, 28, and 29. We urge the Department to provide companies with more flexibility in this regard and to allow companies to integrate and tailor the various climate-related assessment and management requirements contained in the guidance into their existing enterprise risk management structures. When the Department is made aware of best practices in this area, those should be communicated to insurers as best practices, allowing insurers the opportunity to evolve their risk management practices in this important area.We also ask that DFS allow insurers the maximum flexibility in adopting the processes outlined in this guidance to allow insurers to tailor solutions to their respective organizations and to allow those solutions to evolve over time as new technology and reliable quantitative measurement models are introduced. This flexibility ultimately will allow the industry to remain nimble while simultaneously moving towards best-in-class solutions. Finally, we would expect that we could use scenarios and data aligned across the Group's entities and leverage those efforts for assessments and disclosure, similar to the process we already use for TCFD climate disclosure.					Zurich North America	Lynne Grinsell	AVP
1	3.1 Proportionate Approach	13	Amendment	The following statement included in Insurance Circular Letter No. 15 (2020) should be included in this section: " climate change affects each insurer in different ways and to different degrees depending on the insurer's size, complexity, geographic distribution, business lines, investment strategies, and other factors."	New York Insurance Association (NYIA)	Ellen Melchionni	President
1) DFS continues to state that their intention is to support the industry in this process. NYIA urges New York regulators to keep this as the core of their thinking as they proceed. The property and casualty industry has found that engaging in a manner that is supportive and incremental produces the best results. 2) It is essential that insurance companies evaluate and respond to a wide array of risks to protect their operations and ultimately financial solvency. NYIA encourages DFS to not put an outsized emphasis on any one risk as the agency fulfills their core duty to regulate for solvency. Companies must be able to maintain flexibility in their operations and investments, and in relation to investment risk, companies need to select financial instruments that fulfill their fiduciary responsibilities to policyholders while fostering their ability to be good corporate citizens. 3) DFS has accentuated that each insurer should take a proportionate approach to managing climate risks. This is critical. A specific amendment is provided above to fully acknowledge why a proportionate approach is necessary.					New York Insurance Association (NYIA)	Ellen Melchionni	President

				4) Property and casualty insurance companies consider the risk of severe weather in an integrated manner with their operations and address this risk in a multitude of ways, including but not limited to underwriting, rating, modeling and reinsurance. 5) The New York insurance law prescribes strict statutory guidelines in relation to an insurance company's investments, including limitations on those investments. In addition, insurance companies need to follow the credit and investment rating agencies on climate change regarding their fixed income and equity holdings. The proposed guidelines in relation to transition risk do not make a direct connection with solvency protection. While it is implied, solvency should be directly addressed. An investment may be viewed as positive from an ESG standpoint, but not be financially sound. The proposed guidance does not override the investment concentration statutes, but insurance companies will need to be prepared to give additional justification to certain investments. For example, Company ABC, a gas production company that may be engaged in renewables, over Company XYZ, an alternative energy company that went defunct. 6) NYIA appreciates DFS's acknowledgment in a subsequent communication that "while insurers are expected to understand and manage their exposure to climate-related financial risks, DFS does not dictate insurers' investment activities." The association thinks it is imperative that regulatory bodies are not prescriptive as they further develop any approach involving climate change or transition risk. 7) Insurance companies employ diversification of assets to mitigate risk overall. A strong investment portfolio should not be oversaturated in any sector or in any other manner to decrease the risk of volatility. 8) Greater emphasis should be made on the transition risk of a sector being unknown given that companies within that sector may be or could begin engaging in actions that align with low carbon strategies.			
1	1. Introduction	Overview of DFS Supervisory Expectations	Clarification	The Overview of DFS Supervisory Expectations Section of the Proposed Guidance sets forth tasks that must be performed by insurers, but the section does not provide detail in relation to timing. Establishing definitive timing requirements for each task will allow insurers to develop an appropriate implementation strategy and manage towards a specific deadline. Definitive timing requirements will also ensure that insurers are held to the same standards. TIAA believes that continued dialogue between the DFS and insurers is necessary to identify timelines that not only are acceptable to the DFS, but also allow insurers to take the steps necessary to perform the required tasks.	Teachers Insurance and Annuity Association of America	Ronald Ragin, Sarah Wilson	Senior Director, Associate General Counsel, Regulatory Affairs, MD, Responsible Investment

2	3.3 Risk Culture and Governance	19-24	Clarification	As noted above in relation to the Overview of DFS Supervisory Expectations Section, establishing definitive time requirements for the tasks required by the Board Governance (3.3.1), Risk Appetite (3.3.2), and Organizational Structure (3.3.3) Sections of the Proposed Guidance would be helpful. Establishing timing requirements will allow insurers to manage towards meeting established deadlines, while also holding insurers to the same standards. We previously noted that the DFS should engage in continued dialogue with the insurance industry to establish deadlines for all required tasks, as this will likely result in timelines that are acceptable to the DFS, but also allow insurers to take the steps necessary to perform the required tasks. From a strategic standpoint, we believe that it would be best to identify and categorize all proposed tasks in relation to their level of difficulty, and set shorter deadlines for simpler tasks (Board Governance and Organizational Structure), while allowing longer periods of time for insurers to comply with more complex tasks (Risk Appetite).	Teachers Insurance and Annuity Association of America	Ronald Ragin, Sarah Wilson	Senior Director, Associate General Counsel, Regulatory Affairs, MD, Responsible Investment
3	3.5 Risk Management	30, 38-42, 44-45, and 47-49.	Clarification	From a risk management standpoint, insurance companies are in the business of taking on and managing risks both in relation to providing products to clients and investing the funds received via the issuance of those products. The Proposed Guidance, and future regulations, should ensure that insurance companies have appropriate latitude to choose which risks to assume, so long as the risks are appropriately evaluated, priced, and managed. Since it is presently difficult to evaluate investment exposure associated with climate risk due to the relatively new nature of this issue, insurers will be forced to look to, assess the usefulness of, and contribute to the development of, evolving sources of information and guidance. Furthermore, it may be helpful for the Risk Management Section of the Proposed Guidance to provide insurers with the option of integrating climate change related risk into their existing risk management framework, or creating a separate risk management framework specifically for climate related risk, depending on which approach is most appropriate for a particular insurer.	Teachers Insurance and Annuity Association of America	Ronald Ragin, Sarah Wilson	Senior Director, Associate General Counsel, Regulatory Affairs, MD, Responsible Investment

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<tr><td>4</td><td>3.6 Scenario Analysis</td><td>54-60</td><td>Clarification</td><td>The Scenario Analysis Section of the Proposed Guidance indicates that the DFS expects insurers to utilize scenario analysis to understand the impact of climate risks on their solvency, liquidity, and ability to pay claims. Insurers are instructed to consider publicly available scenarios, such as those developed by NGFS, and to customize the scenarios based upon the insurer's geography and business lines. Since the factors set forth in publicly available scenarios can vary significantly, we believe that over time, the DFS should consider identifying specific scenarios for use. Providing more detailed direction in relation to scenario usage will ensure that there is standardization in testing standards, which will lead to comparable testing results across the insurance industry. If the DFS prefers not to select specific scenarios, it would be helpful for the DFS to provide additional guidance in relation to the types of scenarios that insurers are expected to use.</td><td>Teachers Insurance and Annuity Association of America</td><td>Ronald Ragin, Sarah Wilson</td><td>Senior Director, Associate General Counsel, Regulatory Affairs, MD, Responsible Investment</td></tr>
<tr><td colspan="5">TIAA supports the adoption of regulations pertaining to the management of risks associated with climate change, as insurance companies will play a vital role in transitioning to a low carbon economy and helping to manage climate risk. TIAA has been focused on effectively managing exposure to known climate risks for quite some time, and TIAA will continue to be engaged with the DFS on this issue. We applaud the DFS in its development of the proposed guidance at issue, as we believe that such guidance will help ensure that companies work to understand and manage climate risk.</td><td>Teachers Insurance and Annuity Association of America</td><td>Ronald Ragin, Sarah Wilson</td><td>Senior Director, Associate General Counsel, Regulatory Affairs, MD, Responsible Investment</td></tr>
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1	1. Introduction	4	Amendment	The prescriptive, detailed expectation about how insurers will embed climate change risk management in their governance, operations and disclosure should be deleted. The appropriate goal is for insurers to fully accept that climate change presents various and potentially material risks to insurers, property and society at large and to incorporate that knowledge into their overall risk management and business model(s). In lieu of demanding how an insurer should approach its risk awareness and risk management, the last sentence should be amended as follows: DFS expects to develop, based on the industry's progress and the impact of climate risks to insurers, a timeframe by which insurers should have fully embedded their approaches to managing climate risks in their overall risk management and operations. Insurers should consider guidance outlined in this guidance as they seek to develop and implement an appropriate climate risk management approach. ~~governance structures, risk management frameworks and processes, business strategies, metrics and targets, and disclosure methods, as outlined in more detail in this guidance.~~	Reinsurance Association of America	Dennis C. Burke	VP
2	1. Introduction	5	Amendment	The last sentence should be amended as follows: Based on this review, there is a wide range of levels of maturity ~~maturation~~ and sophistication among insurers in terms of understanding and managing climate risks, with larger insurers typically more advanced than smaller ones, which in some cases have not yet ~~thought about the issue~~ given consideration to climate risks.	Reinsurance Association of America	Dennis C. Burke	VP
3	1. Introduction	Overview of DFS Supervisory Expectations	Amendment	Comments on opening paragraph. The role of (re)insurers is to assume and manage risk. The management of climate risks is part of the role and business of insurers. Sometimes management of risk involves mitigation of its cause. Other times, not. Accordingly, the opening paragraph should be amended as follows: DFS expects insurers to take a strategic approach to managing climate risks that considers both current and forward-looking risks and identifies actions required to ~~mitigate~~ manage those risks in a manner proportionate to the nature, scale, and complexity of insurers' businesses.	Reinsurance Association of America	Dennis C. Burke	VP

4	1. Introduction	Overview of DFS Supervisory Expectations	Amendment	Comments on paragraph 1. The prescriptive direction of how an insurer addresses climate risk should be deleted and amended as follows: Integrate the consideration of climate risks into risk management and operations, with appropriate involvement by the insurer's board and senior management. ~~its governance structure. The insurer's board should understand and be responsible for~~ The company's approach to managing climate risks~~, which~~ should be reflected in the company's risk ~~appetite and organizational structure~~ management and operations.	Reinsurance Association of America	Dennis C. Burke	VP
5	1. Introduction	Overview of DFS Supervisory Expectations	Amendment	Comments on paragraph 2. The requirement to consider climate change risks is appropriate in establishing strategic business decisions, not routine business decisions that are not materially exposed to transition risks or risks associated with a changing climate. For example, forward looking climate risk analysis is not needed for business decisions regarding an annual policy or risk transfer agreement with a one year horizon. Such considerations are more appropriate with strategic decisions involving the viability of a book of business in light of climate change risks and expectations. Paragraph 2 should be amended as follows: When making strategic ~~and~~ business decisions, consider the current and forward-looking impact of climate-related factors on its business environment in the short-, medium-, and long-term.	Reinsurance Association of America	Dennis C. Burke	VP
6	1. Introduction	Overview of DFS Supervisory Expectations	Amendment	Comments on paragraph 3. Exactly how an insurer evaluates and incorporates climate risk into its risk management process should not be prescribed. Also, the ORSA is intended for an insurer to identify and disclose risks that it deems material. Requiring an ORSA to include climate risks not deemed material by the insurer dilutes the goal and benefits of the ORSA process. Accordingly paragraph 3 should be amended as follows: Incorporate climate risks into the insurer's existing financial risk management, including by embedding the evaluation of climate risks in its risk management framework and analyzing the impact of climate risks on existing risk factors. An insurer should provide appropriate consideration to whether climate risks should be ~~considered~~ discussed in the company's ORSA.	Reinsurance Association of America	Dennis C. Burke	VP

7	1. Introduction	Overview of DFS Supervisory Expectations	Clarification	Comments on paragraph 4. As noted in our general comments, the RAA suggests that DFS provide clarification regarding its expectations associated with scenario analyses. The draft guidance is at once prescriptive and vague. Accordingly, it does not provide useful guidance to NY domestic insurers. Reinsurers already consider much climate change risk as part of their overall risk management and believe that the best approach is to permit them to choose scenarios that are material to their business operations and plans.	Reinsurance Association of America	Dennis C. Burke	VP
8	3.1 Proportionate Approach	14	Amendment	As the goal here is to attempt to quantify the future, the analysis should specifically state that is the goal. Also, because of the inherent uncertainties, we believe qualitative factors remain relevant even as quantitative capabilities improve. Further, we suggest that this paragraph apply only to those insurers whose understanding of climate risks is in the earlier stages of development. This prescriptive approach is not needed for those insurers who have a more advanced climate understanding. We urge that this guidance be deemed a reference for advanced insurers, not a mandate. The paragraph should be amended as follows: As an insurer's expertise and understanding of climate risks develop, DFS expects the insurer's approach to managing these risks to mature. Over time, an insurer's analysis of climate risks and assessment of their materiality for its business should shift from a qualitative approach to a combined qualitative and quantitative approach that seeks to quantify future risk. While a qualitative assessment may be based on simple models and a small set of risk factors, a quantitative assessment should ~~rely on~~ evolve to become more sophisticated, using models and a broader set of risk factors, ~~which should include the following branded~~ including relevant risk factors described in the Handbook: credit, legal, liquidity, market, operational, pricing and underwriting, reputational, and strategic risks.	Reinsurance Association of America	Dennis C. Burke	VP

9	3.1 Proportionate Approach	15	Amendment	This section is too prescriptive (see general comments), further it needs clarification. What is DFS expectation regarding scenario and time scale analyses? While a description of examples of different scenarios to consider is helpful, requiring such scenario analyses over different time frames is not necessarily material or helpful. Please clarify if this represents guidance for an insurer to consider as it evaluates its risk exposure and scenarios appropriate and material to its business or is this a mandate to use such scenarios? We suggest that DFS clarify its expectation that insurers use scenarios that are material to its operations and that the time horizons are similarly flexible. We further suggest the following changes in this paragraph: An insurer that is developing a climate risk approach or model may need more time to incorporate it into its risk management function, or to establish an adequate control environment. That insurer should start by qualitatively analyzing the impact of climate risks on the risk factors described in the Handbook ~~these branded risk factors~~ for its business lines and assets. In addition, it should assess how its business (both assets and liabilities) will perform under various scenarios and time frames. Scenarios could include~~, such as:~~ (1) an orderly transition that phases out fossil fuel-based energy and transportation with minimum financial market disruption and a limited increase in natural disasters; (2) a disorderly transition with a large financial market disruption and a limited increase in natural disasters; (3) a disorderly transition with a drastic increase in natural disasters; and (4) no transition (as the economy continues to use the same amount of fossil fuel) with a drastic increase in natural disasters. The assessment should consider near term, mid-term and long-term time frames as the insurer deems material and as described in its analytical records.	Reinsurance Association of America	Dennis C. Burke	VP

10	3.1 Proportionate Approach	16	Clarification	See our general comments. Also, please respond to the request for clarification. Insurers that have been evaluating climate risk without prompting from DFS need to understand if DFS' expectations are different from the risk assessments that such insurers are currently doing. Also, clarification about the meaning of insurers with "most developed climate-related risk profiles" is also needed. Regarding time horizons, as mentioned in other comments, we believe generic time frames are less instructive than time horizons deemed appropriate by insurers to ascertain the materiality of their risk exposure. We believe discussion between insurers and DFS, and other appropriate regulators, regarding appropriate time frames for the climate risk assessments for business and investment risk will be beneficial. We encourage such an approach. We also note that there are many assumptions that are needed to evaluate physical and transition risk generally, but particularly over longer time horizons. Such assumptions complicate the evaluation of transition risk, particularly when seeking a quantification of such transition risk over longer horizons. As quantification of longer-term investment risk has such a multitude of assumptions, we believe it should only be used for as a tool to enhance awareness of the potential scales of climate risk impacts. As such, we believe further clarification from DFS regarding expectations is appropriate.	Reinsurance Association of America	Dennis C. Burke	VP

11	3.2 Materiality	17	Amendment	This paragraph is too prescriptive (see general comments). The relevance and proportionality of climate risks to the insurer and its business needs to be considered. Also, as previously noted, the inherent uncertainty about the future suggests that qualitative analyses will continue to be relevant even as quantitative estimates improve. We suggest the following amendments: This guidance includes several references to materiality or to material risks or exposure. DFS understands that the quantification of climate risks is still a developing area with uncertain or, in some cases, unavailable data and models. However, this does not preclude insurers from making informed judgments about the significance of climate risks to their businesses. For insurers early in the process of managing climate risks or with more limited resources, materiality assessments may be based on qualitative information, and on analysis of portfolio exposure to certain sectors or geographies in underwriting or investments. Over time, when qualitative analyses demonstrate the probability of material climate risk, this assessment should ~~become more~~ include quantitative analyses and rely on methods such as scenario analysis and stress testing as appropriate.	Reinsurance Association of America	Dennis C. Burke	VP
12	3.2 Materiality	18	Clarification	Please clarify what DFS means by "insurers should recognize that certain risks may be material, regardless of their numerical impact, based on external factors …" Materiality is a generally understood and largely objective standard. Insurers must make independent, objective determinations about materiality in their financial statements and related disclosures. If the intent is to incorporate the concept of transition risks that could have a material impact in the future, such as potential capital losses from an oil & gas investment beyond current market conditions, please clarify. Additional clarity is needed.	Reinsurance Association of America	Dennis C. Burke	VP

13	3.3 Risk Culture and Governance	19	Amendment	In general, this entire section is too prescriptive (see general comments). The relevance and proportionality of climate risks to the insurer and its business needs to be considered. Also, as previously noted, the inherent uncertainty about the future suggests that qualitative analyses will continue to be relevant even as quantitative estimates improve. Suggested amendments to this paragraph are: The Handbook lays out the components of an effective corporate governance program.6 Consistent with the Handbook, DFS expects an insurer's board of directors (or an appropriate committee thereof) or, if there is no board, the governing entity ("board"), to be aware of and periodically informed of ~~and assess~~ the insurer's assessment of relevant climate risks, and to consider ~~address and over~~see these risks within the insurer's overall business strategy and risk appetite. The board ~~'s approach should reflect an understanding of~~ should appreciate the potential impact ~~nature~~ of climate risks as well as their long-term impact beyond the standard business planning horizon.	Reinsurance Association of America	Dennis C. Burke	VP

14	3.3 Risk Culture and Governance	20	Amendment	Too prescriptive. See general comments. The assigned person(s) should be appropriate and up to the task to evaluate, assess and make recommendations to insurer decision makers regarding climate risk management. Other qualifications are prescriptive and unnecessary, except as considerations. Further, to avoid unnecessary actions and expenses without corresponding benefits, we believe insurer groups should be able to rely upon appropriate internal group resources and actions taken. Such resources should be available to the NY domestic insurer's board and senior management. As the focus should be on appropriate identification of material risks to the insurer and its operations, prescriptive structural mandates should be avoided. Suggested amendments: DFS expects insurers to designate ~~a member or committee of the board, as well as a member of senior management most suited to the~~ an appropriately skilled person or committee (who may be associated with a parent or an affiliate), with appropriate access to the insurer's board or management ~~task within the insurer's organizational structure and given the insurer's climate risk profile~~, as responsible for the insurer's assessment and management of climate risks. As climate change could impact multiple business units and require expertise from multiple functions, one option is to have an internal risk committee of senior management charged with understanding the changing risk landscape and identifying potential ways to address climate risks.	Reinsurance Association of America	Dennis C. Burke	VP

15	3.3 Risk Culture and Governance	21	Amendment	As drafted this paragraph is too prescriptive. Suggested amendments: Some insurers may determine, after a thorough assessment, that climate risks are not material to their businesses. However, because of the changing nature of those risks, those insurers should still designate an appropriately skilled person or committee to stay abreast of evolving climate risks and that senior management and the board be apprised of material information and risks. Insurers can rely upon climate risk expertise and action taken by others in the insurance group, provided that the insurer, its management and board have access to such resources to inform it of evolving climate risks. ~~designate a member or committee of the board and a member of senior management to be responsible for climate risks.~~ For example, the concentration of an insurer's investments in companies considered vulnerable to transition risks in the current regulatory environment might be below the materiality threshold set by an insurer. But if a meaningful national carbon tax (e.g., $200/ton CO2-equivalent) is adopted and more companies are considered vulnerable to transition risks, that threshold could easily be met. ~~Ensuring that the board and senior management stay abreast of evolving climate risks is critical.~~	Reinsurance Association of America	Dennis C. Burke	VP
16	3.3 Risk Culture and Governance	22	Amendment	In the US corporate and insurance regulatory systems, boards of directors provide oversight of management and typically do not establish specific risk policies for climate or other risks. Further, unless the insurer undertakes to write specific cover for climate risks, climate risk will mostly be evident as an amplification of existing risk profiles. As such, it is possible that there will not be new climate risk tolerance limits per se, just as there are no new risk tolerance risk for any new emerging risk. Please clarify what DFS has in mind regarding risk tolerance levels and limits in this regard. Suggested amendments: DFS expects an insurer to have a written risk policy to inform ~~adopted by~~ its board of directors that describes ~~describing~~ how the insurer monitors and manages climate risks in line with its risk appetite statement. The policy should include the insurer's risk tolerance levels and limits for financial risks, and, where material to the insurer and its operations, consider factors such as:	Reinsurance Association of America	Dennis C. Burke	VP

17	3.3 Risk Culture and Governance	24	Amendment	As mentioned in other comments, the goal of a climate risk analysis is to identify and assess an insurer's risk to physical and transition climate risks and to determine how to manage or, if appropriate, mitigate such risks. In the absence of a material benefit that outweighs the costs, we believe the focus should be the analysis itself. We believe this paragraph can be improved by focusing on the general concept of ensuring the appropriate knowledge and skills to conduct an appropriate analysis. Also, see the RAA's general comments, particularly regarding the fact that many reinsurers have been conducting various climate risk analyses for years and the specific corporate structural mechanisms can differ. Suggested amendments are: DFS expects insurers to: a) Create an organizational structure that has or is committed to develop the skill, expertise, and knowledge required for the assessment and management of climate risks, with appropriate involvement of the board and senior management. In developing such skills and knowledge, an insurer may rely upon work performed by and skills, expertise and knowledge of related persons and affiliates that are made available to the insurer. ~~includes risk assessment, compliance, internal control, internal audit, and/or actuarial functions (collectively, "control functions") to manage climate risks.~~ ~~[Delete existing paragarphs b-g;~~ renumber h as b~~]~~b) Consider, where appropriate, implementing remuneration policies to align incentives with the strategy for managing climate risks.Alternative suggested amendments: If DFS desires to keep additional specificity to provide guidance to insurers that do not have significant climate risk analytical experience, we recommend that the provision be amended to suggest that insurers consider such thoughts in structuring their analytical frameworks and related risk management responses.	Reinsurance Association of America	Dennis C. Burke	VP

18	3.4 Business Models and Strategies	26	Amendment	Climate risk assessment is intended to evaluate risks from a changing climate. Forward looking stress tests and scenario analyses may be useful for risk assessment, however the role in setting appropriate business strategies is less clear. We suggest deleting the first sentence, as it inappropriate to emphasize one category of risk or direction, to the exclusion of others, from an insurer's senior management and board to the company. It may inappropriately require management to provide business strategy information in ways that are not material to risk management and to persons and entities that do not have a material need to know. Also, the reference to "their relevant entities" is unclear in context and could be interpreted to apply to both subsidiary and upstream corporate entities. We believe it is preferable to deleting the sentence, rather than attempting to amend it to address the many issues present. Further, as it is the fundamental role of insurer management to provide appropriate direction and guidance regarding risks and risk management to the company at large, the sentence is also redundant in practice. Suggested amendments: ~~Insurers should ensure that their business strategy is effectively communicated to, and operationalized by, all of their relevant entities, individual business units, and product lines.~~ <u>Where qualitative analyses determine that climate risks are potentially material,</u> Insurers are expected to use scenario analysis and stress testing to help <u>assess and understand future climate risks. Insurers should consider the qualitative and quantitative future climate change risks as part of the development of their respective</u> ~~set~~ business models and strategy. Further guidance on scenario analysis and stress testing is covered in Section 3.6. Where appropriate, insurers are encouraged to set and monitor clear key performance indicators.	Reinsurance Association of America	Dennis C. Burke	VP
19	3.4 Business Models and Strategies	27	Amendment	Too prescriptive (see general comments.) We urge DFS to amend this paragraph to focus on the goal, not the process, of insurers' climate risk identification, assessment and management. Suggested amendments: DFS expects to an insurer to document ~~how its business environment analysis, scenario analysis, and stress testing (if applicable) is considered in its strategy-setting process, risk appetite framework, and risk management and compliance processes.~~ <u>that it has appropriately considered its climate risk analysis in its business strategy and operations.</u>	Reinsurance Association of America	Dennis C. Burke	VP

20	3.5 Risk Management	28	Amendment	The bulleted sections of this paragraph are too prescriptive as drafted (see general comments.) While insurers need to identify, assess and manage climate risks, normal business processes are appropriate for documenting the analytical work. As amended, the focus will be on substance, not process. Further, we suggest including a reference to time frame in the second bullet point and deleting the ambiguous final bullet's reference to managing risks over a long-term horizon. The many assumptions required to identify and assess climate risks over the long-term necessarily have a large margin for error that makes the analysis unsuitable for financial or specific risk management processes. Long-term climate risk evaluation is best used for general awareness of climate risk and their potential scale. Suggested amendments to bullets: • Consider the impact of ~~address~~ climate risks through their existing ERM functions and in line with their ~~board- approved~~ risk appetites, including considering the ~~how climate risks affect the branded~~ risk factors set forth in the Handbook; • identify, assess, monitor, manage, and report on their exposure to these risks in a manner that is appropriate for the nature, scale, timeframe, and complexity of the risk and their businesses; ~~• document in their written ERM and board risk reports the climate risks considered, including their transmission channels, and their impact on existing risk factors, and where appropriate, update existing risk management policies to reflect climate risks;~~ ~~• manage and monitor these risks over a sufficiently long-term horizon and review their analysis on a regular basis.~~	Reinsurance Association of America	Dennis C. Burke	VP

21	3.5 Risk Management	29	Amendment	As with prior paragraphs, this provision is too prescriptive as drafted (see general comments.) Suggested amendments: Insurers should have a process in place that identifies and prioritizes all reasonably foreseeable and relevant material risks, including climate risks. ~~Information on these risks from internal and external sources should be systematically gathered and maintained, climate-related risks and opportunities should be documented and reported to senior management, and climate risk indicators and metrics should be periodically reviewed by the board that is responsible for climate. As discussed in more detail in Section 3.6, insurers should use scenario analysis and stress testing to inform the risk identification and prioritization process and understand the short- and long-term climate risks to their business models.~~ Insurers are also expected to go beyond using historical data to inform their risk assessment and consider future trends.	Reinsurance Association of America	Dennis C. Burke	VP

22	3.5 Risk Management	30	Amendment	This paragraph is too prescriptive as drafted (see general comments.) We have also suggested edits to delete the reference to "limits" as being examples of quantitative tools and metrics.Also see earlier comments regarding the inherent difficulty of setting separate climate risk appetite and tolerance limits associated with policies that do not specifically cover climate risk. For most existing lines, climate change may change traditional loss projections and potentially amplify them over time. Suggested amendments:Insurers should consider climate risks in setting their risk appetite, tolerance, and limits, where appropriate. Insurers may apply appropriate quantitative tools and metrics and qualitative statements to help establish clear boundaries and expectations for risks that are hard to measure. For example, tools and metrics can be used to monitor exposures to physical or transition risks caused by changes in the concentration of an insurer's investment portfolios (such as the percentage of real estate investments exposed to climate- related flood risk or the amount of investments in fossil fuel companies that do not have a credible transition plan), or to measure the potential impact of physical risks on supply chains. Examples of quantitative tools and metrics include: catastrophe modeling software to estimate 200-year value-at-risk or probable maximum loss for a natural catastrophe peril region, ~~limits on~~ modeled estimates of investment and/or underwriting exposure to sectors or companies exposed to high climate risks, ~~limits on~~ modeled investment exposure to geographies with high physical risks, and carbon footprints of investment portfolios. Insurers may use these metrics to compare and report actual assessed risk versus risk tolerances/limits, and track progress against their overall business strategy. DFS expects that these tools and metrics and qualitative statements will evolve and mature over time.	Reinsurance Association of America	Dennis C. Burke	VP
23	3.5 Risk Management	31	Amendment	To prescriptive as drafted, we suggest the following amendments: In light of a changing climate, an insurer's established risk appetite should be periodically examined and updated. ~~An insurer shouldalso identify circumstances that would trigger additional review of its strategy for addressing climate risks.~~	Reinsurance Association of America	Dennis C. Burke	VP

24	3.5 Risk Management	32	Amendment	This paragraph is also too prescriptive as drafted. Insurers are in the business of managing risk and frequently must confront previously unprecedented risks. The risk to an insurer due to climate change is a risk. It is different than risks that can more easily rely upon historical information, but it is ultimately a risk. As such, it is a risk that is should be and is considered in reinsurer ERM activity. Suggested amendments: Managing risk, including climate risks, is an ongoing ERM activity, operating at many levels within the organization, which requires a collaborative, enterprise-wide approach. If the potential impacts of climate risks are determined to be material in the near term, DFS expects insurers to demonstrate how they will ~~mitigate those risks and to develop a credible plan or policies for managing~~ manage their exposure. ~~, including by reducing the concentration of those risks.~~ Insurers should consider the potential mid-term and longer-term climate change risks as part of their future business strategy and risk management. ~~These plans and policies should reflect the unprecedented nature of climate risks, and how they differ from other risks.~~	Reinsurance Association of America	Dennis C. Burke	VP
25	3.5 Risk Management	33	Amendment	We ask DFS to clarify what it means in this paragraph. We have suggested a clarifying amendment in the first sentence, but seek clarification regarding the last sentence particularly in the context of risk management. The concept that is appropriate for an insurer to seek outside expertise when it recognizes its own limitations may be more appropriate as a general overview comment.Suggested amendments:To inform their risk management, insurers should seek to understand the potential current and future impacts of physical and transition risks relating to climate on their customers, counterparties, investees, and potential investees. The insurer can leverage external data sources in case internal information is not sufficient. If an insurer does not have the necessary information to understand these impacts and that information is considered material to the insurer's own risks, the insurer is expected to engage with these entities and consider using data from publicly-available sources or working with external experts to collect such data.	Reinsurance Association of America	Dennis C. Burke	VP

26	3.5 Risk Management	34	Amendment	This paragraph is too prescriptive in its focus on process, rather than substantive risk management. It also fails to differentiate between climate change risk assessment over different time horizons. Near-term climate risk assessments are likely to be capable of being managed in a current operational environment. Longer-term climate risk evaluations have significant uncertainties that limit the ways in which the assessment can provide benefits to the insurer and its strategic plans. Consistent with the reality that management is responsible for the day-to-day operation of the company with guidance from the board of directors, we have suggested an amendment to acknowledge their respective roles. Also, the sentences after footnote 23 are examples of methods to identify climate risk and evaluate it. These are more appropriate for Section 2, "Financial Risks from Climate Change." They should be deleted from this subsection. Suggested amendments: DFS expects an insurer~~’s control functions, including risk management, information technology, compliance, internal audit, and actuarial functions, to be integrated for purposes of managing climate risks to report climate risk issues in a coordinated manner, and~~ to have the appropriate resources and expertise to support their consideration of climate risks. Insurers can use the “Three Lines of Defense” model described in the Handbook or a similar system of checks and balances that is effective and integrated into the insurer’s material business processes. The control functions should identify~~, measure, monitor, and report on the insurer’s climate risks, assess the effectiveness of the insurer’s risk management and internal controls, and determine~~ whether the insurer’s ~~operations, business results, and~~ climate risk exposures are consistent with the insurer’s risk appetite statement ~~approved by the board~~, as shared with its board. ~~For example, the compliance function should consider the legal risks stemming from climate change (e.g., failure to appropriately disclose information on climate-related exposure) and ensure that internal policies and control procedures are compliant with the standards, directives, charters, or codes of conduct related to environmental, social, and governance principles that the insurer committed to respect. The actuarial function should consider the quality and completeness of climate-related data, with the understanding that historical data may not be sufficient to~~	Reinsurance Association of America	Dennis C. Burke	VP

				~~appropriately calibrate premiums or reserves to reflect climate risks, particularly rapidly evolving ones.~~			

27	3.5 Risk Management	35	Amendment	Too prescriptive as drafted (see general comments.) Insurers are in the business of assuming risk and managing it. The edit is intended to emphasize that not every risk needs to be eliminated or mitigated. As amended, the insurer's board will continue to have the information needed to provide appropriate oversight. We have also added a sentence to emphasize that insurers may rely upon group efforts and expertise. Suggested amendments: DFS expects insurers to provide their boards with information regarding their exposure to climate risks, mitigating actions, if necessary, and the timeframe within which they propose to take these actions, if any. The information should enable the board to discuss, challenge, and ~~make decisions~~ provide oversight relating to the insurer's management of climate risks. Insurers may rely upon the climate risk expertise and related actions taken by members of its group, with appropriate implementation at the insurer level.		Reinsurance Association of America	Dennis C. Burke	VP
28	3.5 Risk Management	36	Amendment	Too prescriptive as drafted. Suggested amendments:The ERM function should address all reasonably foreseeable and relevant material risks. DFS expects insurers and other entities that are required to have ERM functions to analyze how the physical and transition risks from climate change could materialize and impact other categories of risk ~~for the branded risk factors~~ set forth in the Handbook~~, including credit risk, legal risk, liquidity risk, market risk, operational risk, pricing and underwriting risk, reputational risk, and strategic risk~~. Below are examples of how climate-related risks might impact ~~each~~ some of these factors.		Reinsurance Association of America	Dennis C. Burke	VP
29	3.5 Risk Management	42	Amendment	Suggested amendments: DFS encourages insurers to monitor ~~on an ongoing basis~~ the effects of current and future climate-related factors on their ~~current~~ market positions and ~~future~~ investments, and to develop stress-testing scenarios that incorporate climate risks.		Reinsurance Association of America	Dennis C. Burke	VP

30	3.5 Risk Management	45	Amendment	Amended to make the paragraph an overarching concept relating to an insurer's awareness that climate change could impact its underwriting activities, with examples: Insurers should consider the impact of a changing climate on their underwriting activities. Examples include a possible (a) increased frequency and concentration of high-impact natural catastrophes around the world as a result of climate change, and the consequent increase in weather- related insurance claims; and (b) ~~. Insurers should assess the~~ impact of climate change on lines of business, such as directors' and officers' liability insurance and professional liability insurance in certain sectors. Insurers should consider whether their pricing models properly reflect climate risks, and whether insurance underwriters and producers are sufficiently ~~educated on~~ aware of climate issues to understand how climate issues affect the pricing of and risks covered under the insurers' products.	Reinsurance Association of America	Dennis C. Burke	VP
31	3.5 Risk Management	46	Amendment	Suggested amendment to reflect that insurer's make underwriting decisions independently and in accordance with applicable anti-trust laws, while maintaining the intent of the paragraph as we understand it: Insurers should consider the negative publicity that may be triggered by insurers' underwriting or investing in sectors perceived as contributing to climate change. This is exemplified by social movements calling for divestment from fossil fuels and the cessation of underwriting of coal-fired power infrastructure. Furthermore, the reputational impact of an insurer's independent determination to ~~the extent that insurers~~ respond to climate risks by increasing rates, ~~or~~ exiting markets, or by other reductions in the affordability or availability of insurance coverage may be adverse.~~also adversely impact insurers' reputations.~~	Reinsurance Association of America	Dennis C. Burke	VP
32	3.5 Risk Management	47	Amendment	Insurers use business judgment to make risk management decisions based on information known at the time. The failure to choose what hindsight deems the optimal strategy does not make the original decision "inappropriate." Suggested amendments: Insurers should consider the challenges posed by physical or transition-related climate events, trends, and scenarios, which could adversely affect insurers' competitive position and financial condition. For example, an insurer's ~~inappropriate~~ insufficient or ineffective strategy to mitigate physical risks or its poor response to transition risks that affect	Reinsurance Association of America	Dennis C. Burke	VP

33	3.5 Risk Management	50	Amendment	This paragraph is too prescriptive as drafted (see general comments.) We suggest that the focus remain on insurers assessing their own exposure to climate change and other risks and reporting on risks that meet the standard for inclusion in an ORSA. The ORSA is intended to be a focal point for an insurer's own assessment of its risks. It should not be used to include process requirements.Clarification regarding the expected inception date will also be needed.Suggested amendments:Certain insurers are required to regularly conduct an ORSA consistent with the process set forth in the ORSA Manual. Consistent with the ORSA Manual, if an insurer determines that climate risks meet the standard for inclusion in its ORSA, the insurer should explain its view of the climate risks that confront it, the scale of such risks, how the insurer manages such risks, and such other information needed to understand the insurer's perception of its ~~risk presented. DFS expects the ORSA to describe how the insurer identifies, categorizes, manages, and monitors climate risks, as well as the climate-related assessment tools and methods of incorporating new climate risk information used by the insurer to monitor and respond to changes in the insurer's~~ risk profile due to related economic changes, operational changes, or changes in business strategy.	Reinsurance Association of America	Dennis C. Burke	VP
34	3.5 Risk Management	51	Deletion	Consistent with our comments on paragraph 50, this paragraph is also too prescriptive (see general comments.) Mandating an insurer to include the enumerated immaterial climate components in its ORSA potentially reduces the "own risk" utility of the ORSA document. For example, requiring an insurer to document its process in determining that it is not materially exposed to climate risk dilutes the ORSA document. Suggested amendment – deletion of paragraph 51.	Reinsurance Association of America	Dennis C. Burke	VP
35	3.5 Risk Management	52	Amendment	Suggested amendment, consistent with the purpose of the ORSA and in accordance with the principle of proportionality: The ORSA should be proportionate to the nature, scale and complexity of an insurer's business and risk, and should enable it to properly identify and assess the risks it faces in the short- and long- term. Qualitative assessment may suffice for insurers not significantly exposed to climate risks, but for insurers facing material climate risks, quantitative assessment should be the long-term goal for all insurers filing ORSAs.	Reinsurance Association of America	Dennis C. Burke	VP

36	3.5 Risk Management	53	Amendment	Suggested amendments (two options presented) to clarify that insurers may rely upon group actions and climate expertise, but must also appropriately manage climate risk at the entity level:Suggestion 1:While enterprise risk reports and ORSA summary reports may be completed at the group level, insurers' climate-related policies and procedures should be implemented at the entity level where appropriate. ~~Similarly, if climate-related expertise and resources are centralized at the group level, insurers in the group should have access to that expertise and those resources. Where the climate-related policies, procedures, or activities of an insurer differ meaningfully from those of the group, DFS expects the insurer to point out these differences and explain why they exist.~~ While insurers may rely upon enterprise risk reports and ORSA summary reports completed at the group level, and climate related expertise and resources at the group level, insurers should ensure that their climate risks are appropriately managed at the entity level. If an insurer relies upon public or regulatory disclosures prepared by the group, the insurer should identify material difference between its climate-related policies, procedures, or activities and those of the group.or. suggestion 2:While enterprise risk reports and ORSA summary reports may be completed at the group level, insurers' climate-related policies and procedures should be implemented at the entity level where appropriate. S~~imilarly, if climate-related expertise and resources are centralized at the group level, insurers in the group should have access to that expertise and those resources. Where the climate-related policies, procedures, or activities of an insurer differ meaningfully from those of the group, DFS expects the insurer to point out these differences and explain why they exist.~~ While insurers may rely upon enterprise risk reports and ORSA summary reports completed at the group level, and climate related expertise and resources at the group level, insurers should ensure that their climate risks are appropriately managed at the entity level, where appropriate.	Reinsurance Association of America	Dennis C. Burke	VP

37	3.6 Scenario Analysis	54	Amendment	Amended to delete prescriptive process requirements, while maintaining substantive purpose. We also clarified that shorter-term scenario analysis and stress testing may be appropriate for prospective solvency assessment, but not longer-term analyses due to the increasing uncertainty associated with longer term predictions. Suggested amendments: Insurers' ERM function must provide for the identification and measurement of risk under a sufficiently wide range of outcomes, using techniques that are appropriate to the nature, scale, and complexity of the insurer's risks, and use prospective solvency assessments, including appropriate shorter-term time horizon scenario analysis and stress testing. Given the forward-looking nature of climate risks and their inherent uncertainty, past experience will not necessarily be a good indicator of future conditions. DFS expects climate change scenario analysis to be embedded in insurers' climate risk evaluation and assessment. ~~corporate governance structures, risk management practices, and ORSAs.~~ Insurers should also ~~conduct~~ utilize its scenario analysis to inform their strategic planning and determine the impact of climate risks on their overall risk profile and business strategy. While scenario analysis should be used to explore the resilience and vulnerabilities of an insurer's business model to a range of outcomes, longer-term scenarios may be too uncertain to serve as a basis for business decisions and planning. DFS expects an insurer's approach to scenario analysis to evolve and mature over time.	Reinsurance Association of America	Dennis C. Burke	VP
38	3.6 Scenario Analysis	55	Amendment	We suggest replacing the first sentence as follows: ~~Insurers should expand their current scenario analysis practices, which tend to focus on their investments, to also analyze impacts on their liabilities.~~ Insurers should consider the impact of climate risks on both assets and liabilities as part of their scenario analyses.	Reinsurance Association of America	Dennis C. Burke	VP

39	3.6 Scenario Analysis	56	Amendment	As noted in other comments, we have suggested an amendment to emphasize the limited utility of the long-term assessment for purposes other than awareness of climate risk potential, which may help with longer-term strategic thinking. We suggest adding a sentence at the end of paragraph b: A long-term assessment of the insurer's exposure, based on its current business model, to a range of different climate scenarios. DFS expects the time horizon of this long-term assessment to be in the order of decades. Long-term assessment is primarily intended for climate risk awareness purposes.	Reinsurance Association of America	Dennis C. Burke	VP
40	3.6 Scenario Analysis	58	Amendment	Too prescriptive (see general comments.) By stating that insurers cannot rely on the ability to sell assets in a liquid market or to seek appropriate rate increases to reflect increased costs, the guidance prevents insurers from conducting their own risk assessment. Suggested amendments: DFS expects insurers to use these scenarios to understand the impact of climate risks on their probable maximum loss, solvency, liquidity, and ability to pay claims. If an insurer relies on reactive actions to mitigate the financial risks from a scenario, it should consider whether these actions are realistic. For example, in certain circumstances, an insurer may not be able to ~~should not~~ rely on the existence of a liquid market to sell assets exposed to climate risks or the sufficiency or feasibility of rate increases to compensate for increased costs. Insurers should also consider whether precautionary actions should be taken in advance, or whether such actions would be relevant or desirable only if a specific scenario emerges. Climate risks are not always reflected in asset prices, which could experience abrupt adjustments as a result of new policies, shifts in market sentiment, or other factors.	Reinsurance Association of America	Dennis C. Burke	VP

41	3.6 Scenario Analysis	59	Amendment	Insurers should generally choose and utilize climate scenarios that are relevant to their operations and exposures. Because scenario analysis is generally still in its infancy, with limited public information and consensus about the probably impact of climate risks on various market players, it is premature to select one of more publicly available scenarios for use by insurers. Once publicly available information about companies becomes readily available, insurers, modelers and others can begin to develop useful tools for developing and evaluating the impact of different scenarios. Suggested amendments: Insurers should utilize scenarios that are relevant to their business sector and anticipated exposures. In choosing appropriate scenarios, insurers should consider publicly available information on climate risks, including ~~consider~~ publicly available scenarios, such as those developed by NGFS, and customize ~~them~~ selected scenarios based on their geographies and business lines. Insurers are also encouraged to use scenario analysis and stress testing to identify data, methodology, and talent gaps, and to raise awareness and sophistication across the organization with respect to climate risks.	Reinsurance Association of America	Dennis C. Burke	VP
42	3.7 Public Disclosure	62	Amendment	This paragraph is too prescriptive, focusing on process rather than substantive impact of climate risks (see general comments.) As noted in the general comments, we believe regulators should seek to achieve a relatively uniform standard for disclosure. This approach to uniformity is embodied in paragraph 65. Suggested amendments: In addition to these existing disclosure requirements, insurers should enhance the transparency of their approach to managing climate risks, consistent with the expectations set out in this guidance. ~~Specifically, all insurers should publicly disclose how climate risks are integrated into their corporate governance and risk management, including the processes used to assess whether these risks are considered material. Information disclosed should go beyond operational issues and address how physical and transition risks (including liability might impact insurers' underwriting, investment, and strategies.~~	Reinsurance Association of America	Dennis C. Burke	VP

43	3.7 Public Disclosure	63	Amendment	This paragraph is too prescriptive as drafted (see general comments.) Requiring quantitative analysis and disclosure of risks that are not material is burdensome and without an accompanying benefit. The inclusion of a material standard can remedy this concern. Further, as previously mentioned, insurers all too often encounter risks that were previously called unprecedented. We suggest deletion of the term “unprecedented.” The concept of “unprecedent” climate risk does not provide significant guidance and potentially creates ambiguity regarding prior large impact weather/climate related events, including whether Superstorm Sandy, Hurricane Harvey, California wildfires of 2017 – 2020, the 2005 and 2020 hurricane seasons, should be considered climate influenced or merely historical aberrational events. Suggested amendments:DFS expects insurers to develop an approach to disclosure that reflects the ~~unprecedented~~ nature of climate risks and the insurers’ understanding of these risks. While DFS understands that the information disclosed is likely to be qualitative initially, <u>where material</u> the disclosure should become more quantitative, including key metrics and targets, over the next two to three years. As insurers would benefit from greater climate-related disclosure in the wider economy, they should encourage such disclosure through their ownership of financial assets.	Reinsurance Association of America	Dennis C. Burke	VP

44	3.7 Public Disclosure	64	Amendment	Too prescriptive (see general comments.) While climate risks may be different in cause, whether climate risks are material to an insurer is akin to the evaluation of other risks. Quantitative analysis and disclosure about immaterial climate risks should be avoided. Requiring such analysis and disclosure of immaterial risks is burdensome, without a benefit. If some level of public disclosure is required to demonstrate that the insurer has considered the risk and determined that climate change does not present a material risk to it, the insurer should only be required to disclose that determination and a brief statement of its reasoning. Also, as insurers make evaluation regarding the materiality of risks, we believe the term "determine" is a more accurate term than "deem." Finally, the proposed, specific details about future scenario analyses and related projections should not be required unless the insurer determines its analysis(es) to be material. A general description of the materiality of its analysis should suffice. Suggested amendments: Over the next two to three years, insurers should start specifying key considerations that inform their assessment of the materiality of climate risks for their businesses. They should pay attention to not only internal factors, such as their business models, long-term strategies, and overall risk profiles, but also external factors, such as the economic and political environment, the different information needs of different users of the disclosure, and recent developments in risks and disclosure requirements. If an insurer determines ~~deems~~ climate risks to be immaterial, the insurer is expected to disclose this assessment, along with its reasoning. ~~qualitative and quantitative basis.~~ If an insurer determines ~~deems~~ climate risks to be material, the insurer is expected to disclose why it determines ~~deems~~ such risks to be material in accordance with general financial reporting standards. ~~related figures, metrics, and targets as well as the methodologies, definitions, and criteria used to make that determination.~~	Reinsurance Association of America	Dennis C. Burke	VP

On behalf of the RAA and its members, we applaud your leadership in addressing the issue of climate change and how improved understanding and transparency of climate and natural disaster risk can be a for the benefit of policyholders, investors, other stakeholders and the general public. The RAA supports climate change disclosures that adequately inform regulators, policyholders, investors and counterparties about known material risks and uncertainties, and support disclosures that would provide greater consistency across industries and around the world.Since 2008, the RAA has an established policy on climate change and we remain committed to working with policymakers, regulators, and the scientific, academic and business communities to assist in promoting awareness and understanding of the risks associated with climate change. RAA's climate policy promotes scientific research, stakeholder awareness, appropriate risk disclosures, development of financial products to mitigate climate risk and the mitigation of greenhouse gases. Addressing these risks urgently is particularly important as the frequency, severity, devastation, and costs of natural disasters continues to increase due to climate change.Despite RAA's longstanding support for enhanced climate risk disclosures, our members are concerned about the proliferation of the many and varied climate risk disclosure requirements being promulgated around the world.Reinsurers are keenly aware of increasing weather-related losses and rely upon scientific information and data to assess, manage and price assumed risk. As a result, reinsurers have already begun to focus on current and future weather conditions on their existing business models and future challenges and opportunities.Significant reinsurer time, expense and effort have been invested in climate risk assessment and the associated management of such risk. Reinsurers urge DFS to acknowledge and recognize that some (re)insurers are farther along the climate risk assessment and management continuum than others and to avoid mandates and structures that discount and invalidate the work already advanced by (re)insurer groups, frequently at the group or parent insurer level.Specifically, insurers who are members of insurance groups should be able to rely upon climate change analyses, disclosures and risk management performed by affiliates, and their climate change subject expertise and personnel. We ask DFS to provide additional clarification concerning those instances where it believes and expects that group actions need to be incorporated by a NY domestic insurer. We believe that insurance groups should be permitted to effectively manage the group and NY domestic insurer exposures to climate change risks in accordance with the group's own business judgement, provided that the NY domestic insurer maintains acceptable solvency and capital adequacy levels.	Reinsurance Association of America	Dennis C. Burke	VP
We further urge DFS to avoid requirements about corporate governance structures and procedures, especially those that focus on who, how and where in an insurance group the assessment of climate risk occurs and who specifically bears responsibility for the ultimate decision regarding how the (re)insurer manages that risk.Ultimately, we agree that the (re)insurance, regulatory community and society at large are best served by (re)insurers conducting a sincere evaluation of the risk of climate change to their current and future operations, solvency and profit potential. (Re)insurers' role, historically and in the future, is one of risk identification, assessment and management of assumed risk, including evolving risk from a changing climate. We have also been at the forefront of loss control, risk reduction and resiliency in the face of change. We plan to continue to use our skills to provide those services to our clients to help them adapt to a changing climate and to improve their financially resiliency. In response to ongoing development of climate risk disclosure requirements by U.S. and international insurance supervisors,	Reinsurance Association of America	Dennis C. Burke	VP

in March the RAA issued the attached Guiding Principles (see below) to Address Climate Change. In this document the RAA recommends that regulatory bodies utilize, assimilate and recognize existing disclosure requirements rather than developing additional disclosure tools. In general, the RAA supports disclosure requirements that borrow from existing requirements and that allow flexibility in reporting by accepting formats already in use under other frameworks such as the TCFD, SASB, GRI, CDP, or the NAIC, among others. New comprehensive financial disclosures will be problematic if they are too prescriptive or require specified quantitative stress tests or scenario analyses that are not supported by current climate and financial forecasting models.			
<u>Guidance Should Avoid Prescriptive Processes</u> While DFS acknowledges that an insurer's climate risk evaluation, risk management and related disclosures is a journey or evolutionary process, the proposed guidance is quite prescriptive in its expectations regarding corporate governance, specific board involvement and actions, and organizational structure requirements. The terms, “expects", "should" or "must" are prescriptive and mandatory in nature and suggest a structure that is more focused on process than on and insurer's own climate risk awareness, understanding and risk management. Similarly, mandating specific comments and documentation in an insurer's ORSA removes the "own risk" solvency analysis that the ORSA is intended to provide. The RAA respectfully suggests that in lieu of mandatory language, the guidance can better achieve its result by encouraging insurers to consider the variety of factors and suggested approaches expressed in the guidance document. Further, and in accordance with the concept of proportionality, climate change disclosures should be material and relevant from the perspective of the management of the reporting entity and should reflect the reporting entity’s business model and risk profile. While disclosures should address both physical risks and transition risks that are measurable given the current limits of climate and financial modelling, DFS should not overemphasize consistency and comparability, nor should it require quantitative reporting of information and estimates that are highly subjective and uncertain. Considering the number of comments and proposed amendments due to the prescriptive nature of the guidance, in the sake of brevity, references in the specific comments to “too prescriptive (see general comments)” are intended incorporate the comments contained in this general comment section.	Reinsurance Association of America	Dennis C. Burke	VP
<u>Scenario Analyses and Stress Testing</u> We ask DFS to provide additional clarification about scenario analyses and stress testing. In their catastrophe risk accumulation evaluations, insurers and reinsurers utilize a multitude of modeled events to help assess risks that are relevant to their business and future business prospects. Similar processes are and can be employed to incorporate other aspects of climate risk over different time scales. The RAA suggests DFS clarify that the climate risk scenario analyses and stress tests	Reinsurance Association of America	Dennis C. Burke	VP

should be those deemed most appropriate by it to evaluate risks to its business operations and plans over related time scales, rather than generic scenarios chosen by DFS to be applicable to all insurers. Accordingly, we believe further clarification of DFS' expectations is appropriate. <u>Climate Change and Audit</u> Additionally, we do not believe that climate risk disclosures and processes should be subject to audit or be integrated into the insurer's control functions in a manner that essentially requires an audit of all insurers' climate risk measurement, monitoring and reporting regardless of materiality. When material, the existing financial statement audit requirements should include climate related disclosures. We support the traditional view of audit services, which within the context of materiality is intended to provide assertions that the financial statements are presented fairly. In the absence of materiality, such an approach will add significant costs without corresponding benefit. Audits are also conducted in the context of the going concern assumption, which generally means that there is an expectation that a business will continue to generate a positive return on its assets and meet its obligations in the ordinary course of business for at least one year from the date the financial statements are issued. Climate risk disclosures and particularly quantifications of transition risk, are more subjective than typical financial statement amounts and measure potential risks far into the future. Such subjective, forward looking statements should not be subject to audit.			
<u>RAA Guiding Principles</u> In addition to the RAA's formal policy on climate risk, the RAA developed some guiding principles supported by its members to aid in ongoing discussions at the state, federal and international levels relating to climate change regulation. The principles are as follows: Regulation should not supplant management decision making (underwriting, investment and risk management). Each insurance entity is unique in its business model and the execution of it in the marketplace. Regulatory supervision should recognize that. Regulatory action should not be prescriptive. Regulators should focus on ensuring that insurers are evaluating future conditions as part of their risk management processes, rather than on fixed metrics. For example, regulator involvement in the investment arena should focus on the ability of risk management processes to identify significant potential future investment impairment, and be in no way granular.	Reinsuranc e Association of America	Denni s C. Burke	VP

Rather than develop additional disclosure tools, regulators should utilize, assimilate and recognize existing disclosure requirements and other climate tools (NAIC survey, SEC, ORSA, TCFD, CDP, Climatewise) and not layer additional disclosures and requirements onto to those already in use. Thoughtful, robust climate disclosures require significant insurer time and resource commitments. The ability to cross-reference or provide climate risk disclosure responses made in other contexts is important to avoid repetition and reduce unnecessary administrative burdens. Companies should be able to provide a single set of disclosures to all regulators or limit disclosures to a single regulator. Consistency is key. To the extent that a company is part of a corporate group, disclosures at the group level should be permitted for legal entities in the group. Coordination with international supervisors and other U.S. regulatory bodies is encouraged. Stress tests and scenario analyses, if needed, should be conducted and evaluated at the group level, not the individual insurer level. Due to the inherent problems involved with down-scaling climate models and in predicting the timing and impact of future climate scenarios, particularly on a regional, state or local geographic basis consistent with (a) insurer business operations and (b) state insurance regulation, model output becomes more speculative. Accordingly, stress tests and scenario analyses should be conducted as a risk management exercise to identify climate issues, not as a solvency tool. It is important to recognize that climate scenario analyses are tools to help understand the long-term effects of climate-related risks on insurance and other financial markets and institutions. They are not the same as traditional stress tests, which have a short-term solvency focus.			
<u>Disproportionate impact of climate change on disadvantaged communities</u> While predicting future impacts of climate change is fraught with uncertainty, weather disasters have burdened disadvantaged communities in a number of ways. Although part of the burden is due to location near the risk, other aspects arise from the inability of disadvantaged communities to take advantage of federal disaster assistance because they cannot afford the co-payments. As a result, the ability to recover and to increase individual and neighborhood resiliency is hampered. The RAA's analysis of federal disaster data has led to our advocacy for provisions to be added to the pending infrastructure legislation to leverage federal funds and private capital to enable disadvantaged and other communities in Community Disaster Resilience Zones (CDRZ) to have access to funds needed to enhance the resilience of individual structures and communities. <u>RAA Generally Supports DFS' Effort, with specific concerns</u>	Reinsurance Association of America	Dennis C. Burke	VP

As noted, the RAA generally supports climate risk analysis and disclosures by insurers and other entities in accordance with the comments set forth herein. We believe the RAA and DFS agree in principle on the fundamental need for insurers to evaluate and assess the future threat that climate change risks, including transition risks, present to their business plans and operations and to their investment portfolios. In general, reinsurers are aware of these risks and the need to assess, monitor and manage them. While we perceive an alignment on that principle, the RAA differs from DFS in the specificity of the approach taken in the draft guidance. Reinsurers are assessing their underwriting and investment risks, although exactly how, by whom, and where in the reinsurer's holding company the risk evaluation and assessment occurs differs by group. Different, good faith approaches and techniques should be accepted and embraced, as there is no best way to evaluate and predict future risks particularly over medium- and long-term time frames, except through hindsight. Because of the diversity of efforts taken by differing groups, the need to avoid duplication of effort, and the goal of accepting other existing disclosure tools, and the structure of the comment template, the RAA is submitting comments on a significant number of the guidance paragraphs to suggest changes to eliminate the prescriptive elements, yet retain the fundamental goal of risk evaluation and assessment.			

1	3.7 Public Disclosu re			Specifically referring to Section 3.7, Public Disclosures, the general approach seems quite promising, namely:• To seek information largely consistent with the TCFD's guidelines; and• To encourage more quantitative metrics over the next two to three years.§ Yet, the DFS proposed guidance would leave the nature and extent of the company responses entirely up to the company. As a result, each company might respond with different particulars and with different degrees of specificity. Even as each company adds more quantitative metrics, the definitions of those metrics might vary significantly. This might be helpful for the first year or two, as different responses might suggest fruitful ways to encourage future reporting. § But, for the disclosures to be as useful as possible to the public, regulators, interested parties, and the companies themselves, comparability to other companies is important. If the DFS were to specify at least some Yes/No or multiple-choice questions (of the kind included in the CDP survey, for example), and/or were to specify at least some metrics that companies ought to be preparing to submit in the next two to three years, that would likely be very helpful. Examples could include a question such as "What metric(s) are you using to assess the magnitude of climate risk?" "How are you defining the metric(s)?" and "How are you measuring the metric(s)?"§ In becoming more specific, the DFS may need to continue to pay attention to two likely needs of both companies and others, which are currently implicit in Section 3.1, paragraph 13:o Recognition that climate risks will affect different lines of business and different geographic regions differently (e.g., NYS insurers with affiliated entities in the Southeast are likely to have different exposures to climate risk than those insurers without entities in that region). These differences in exposure not only flow from differences in major storm activity—such as hurricanes in the Southeast—but also from important regional differences in trends in temperature, precipitation, and wind that might also introduce different levels and kinds of risks, as the Actuaries Climate Index makes apparent. o Those who prepare responses are likely to require assistance, education. and training; this would be even more so if the questions are more demanding and specific.§ Finally, with respect to public disclosures, it would be very helpful if DFS clarified that everything requested in the proposed guidance is incremental to rather than duplicative of the existing information insurers already have to provide in response to the NAIC Climate Risk Disclosure Survey. Highlighting information that is being requested which is not normally found in insurer responses to the current NAIC survey and recognizing that submission of NAIC survey responses with any supplemental required information would meet the requirements of the guidance would also minimize the likelihood of an unnecessary allocation of time and resources.	American Academy of Actuaries	Craig Hanna	Director of Pulic Policy

2	3.1 Proportionate Approach			Section 3.1 asks insurers to extend their business planning to 30 years. This extended time horizon would pose challenges in identifying the best ways in which to estimate the risks that far into the future, especially for lines of business which do not typically look that far into the future. Our expectation is such projections would be heavily caveated and may be of questionable value going further and further out into the future. One way to gain insight without requiring projections that might be of limited value would be to ask insurers to simply provide information on what tools they think are helpful in projecting that far out rather than trying to quantify the impacts. The Actuaries Climate Risk Index provides one tool that might be adapted by insurers to estimate the impact of changing climate risk on losses. Calling attention to the need to find or develop tools, internally or externally, and generating responses that might be used to generate a list of frequently used sources, might be very helpful.	American Academy of Actuaries	Craig Hanna	Director of Pulic Policy
3	3.5 Risk Management			Section 3.5 would request information on risk identification and prioritization. It might be helpful if the DFS pointed to reliable and useful sources of information and, perhaps, to guidance on the future trends. Section 3.5 also would request an assessment of the impact of climate change on existing risk factors. Some more guidance on ways in which to assess these impacts with qualitative information, prior to the availability of systematic scenario analysis or stress testing, might be helpful.	American Academy of Actuaries	Craig Hanna	Director of Pulic Policy
The American Academy of Actuaries (Academy), Actuaries Climate Index/Actuaries Climate Risk Index (ACI/ACRI) Work Group, and the Climate Related Financial Disclosures (CRFD) Work Group appreciate the opportunity to comment on the New York State Department of Financial Service's (NYS DFS) "Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change." In their practice, actuaries are grappling increasingly with risks associated with climate change both in our roles as risk managers and in our roles assessing premiums and reserves. We commend the NYS DFS for taking a lead in trying to improve awareness of and responsiveness to climate risks. The public, regulators, insurance interested parties, and companies all can benefit from enhanced information and effective action. As New York is one of the first states to move actively in this area, others are likely to be influenced by your actions. ACADEMY RESEARCH ON CLIMATE CHANGE AND CLIMATE RISK DISCLOSURES In addition to perspectives gained from our working experience, the Academy has also spent considerable time in recent years on two research initiatives that have provided us additional insight into changing climate risks and the need for appropriate financial reporting responses. Actuaries Climate Index and Actuaries Climate Risk Index First, the Actuaries Climate Index® v 1.1, created and maintained by four North American actuarial associations, including the					American Academy of Actuaries	Craig Hanna	Director of Pulic Policy

Academy, documents changes in extreme occurrences of six climate-related elements of weather and sea level. The index, a measure summing the observations across all of the six elements, covers the U.S. and Canada, and breaks results down for 12 regions, seven in the U.S. While the index generally shows increasingly extreme climatic conditions since the end of the reference period, 1961–1990, it also reveals the variability in those increases—both by element and by region. In 2020, the Academy published a preliminary model, the Actuaries Climate Risk Index v 1.0, providing estimates for the property losses during the period 1991–2016 that could be attributed specifically to changing climate, controlling for changes in exposure. Climate Related Financial Disclosures Second, the CRFD Work Group of the Academy has been examining climate disclosures as they apply specifically to the insurance industry. In the first part of that research, presented to the National Association of Insurance Commissioners (NAIC) in December 2020 and January 2021, the work group examined the climate-related financial disclosures currently being completed by about 70% of the insurance industry in response to the NAIC Climate Risk Disclosure Survey. That survey consists of nine Yes/No questions, with eight narrative responses required to elaborate. In the second part of that research, with results expected by August 2021, we are assessing options for moving forward with improved disclosures. The Academy's research to date has revealed several characteristics of the disclosure protocol in place for insurers since 2010: 1. Insurers have generally been increasing their Yes answers, indicating greater awareness of and responsiveness to climate risks; 2. There exists substantial variability in the narrative responses both by insurance product and by size of the company; 3. It is difficult to extract information from the narrative responses with which to create benchmarks or otherwise compare the performance of any individual company to others; 4. A relatively small proportion of insurers—less than 30% of companies—are responding robustly to the current survey. As a result of the work group's examination of the NAIC Climate Risk Disclosure Survey, it has identified several key tasks to be accomplished in the second part of its project, based in part on a comparison of the current NAIC survey with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP) survey: 1. Examine two gaps: a. Gap between most robust survey responses and the requirements of TCFD and/or CDP b. Gap between most robust and less robust survey responses 2. Assess different possible methods of encouraging more robust, informative responses from insurers, including: a. Careful construction and testing of questions b. More guidance for preparers			

c. More Yes/No and/or multiple-choice questions							
1	1. Introd uction	3	Amend ment	Replace “support...in managing” with “guide...in mitigating”	Public Citizen	Yevge ny Shrag o	Policy Counsel
2	1. Introd uction	4	Deletion	Remove “based on the industry’s progress . . . .” Climate change is not a new development. It has long been an acknowledged risk to insurers. Given the unpredictable manifestations of physical risk, insurers who are not prepared to address their climate risk are an immediate threat to the stability of insurance markets. DFS should require lagging insurers to make embedding climate risk into their business a top priority by the end of 2021. Significant resources exist to help insurers to start addressing their climate risk, and DFS can encourage sharing of best practices by those insurers who are moving faster.	Public Citizen	Yevge ny Shrag o	Policy Counsel
3	1. Introd uction	8	Clarifica tion	State that insurers who mitigate their own climate risk by withdrawing from or raising rates on low income communities and communities of color risk violating Section 2606 of the New York State Insurance Law, especially where those insurers have contributed to creating the problem by investing in and underwriting high emissions activities. Clarify that DFS expects that insurers will find other avenues for managing risk and not rely on withdrawal or rate increases in these communities.	Public Citizen	Yevge ny Shrag o	Policy Counsel
4	2. Financia l Risks from Climate Change	9	Amend ment	This description of physical risk should be broadened. The guidance should acknowledge here that as climate change continues, physical risks will become more complex and harder to model, undermining many of the risk management tools that insurance companies use today. It should add that while some business lines appear most vulnerable today, hedges into other lines may become increasingly less useful as climate change’s negative effects reduce life spans, drive up health care costs, and broadly transform the economy. The upshot of unchecked climate change is not just increasing frequency of natural disasters; it is chronic and growing stress on infrastructure, health care, and social and economic systems, and the destruction of existing financial markets.	Public Citizen	Yevge ny Shrag o	Policy Counsel

5	2. Financial Risks from Climate Change	10	Deletion	Remove the last sentence. Major oil and gas companies continue to invest in fossil fuel expansion, and this guidance creates the impression that investing in those companies is acceptable so long as they are also investing in renewable energy, without qualification. Before suggesting that investments in such companies reduces transition risk, DFS should lay out specific guidance on what constitutes an acceptable transition plan and how to evaluate transition claims.	Public Citizen	Yevgeny Shrago	Policy Counsel
6	2. Financial Risks from Climate Change	12	Amendment	This section should include a discussion of the precautionary principle. As the guidance acknowledges, climate change is unpredictable and unprecedented. Given those facts, insurers cannot plan for a specific scenario. They should take action that makes them resilient to the full range of worst case scenarios. DFS should also encourage insurers to align their business with science based targets now. Taking this step reduces the risks both of a too little, too late scenario occurring and of the costs that insurers will face from the too little, too late scenario. DFS can clarify that while it does not have a free-standing mandate to fight climate change, reducing financed emissions in line with science-based targets is a fundamental part of the prudent approach to mitigating the financial and consumer risks that climate change poses to insurance markets.	Public Citizen	Yevgeny Shrago	Policy Counsel
7	3.1 Proportionate Approach	13	Clarification	Due to their level of sophistication and resources, large insurers should devote additional resources to managing climate risks and move faster in developing and implementing appropriate practices. This is particularly important due to the increased scale and complexity of their businesses and the fact that they are better positioned to implement global best practices that can then transmit down to smaller insurers. The risk of a large insurer failing due to unanticipated climate risk is akin to what happened with AIG in 2008, and requires immediate action by insurers and DFS to avoid.	Public Citizen	Yevgeny Shrago	Policy Counsel

8	3.1 Proportionate Approach	15	Clarification	An insurer should analyze not only its own business performance, but the risk that its investments and underwriting decisions create for insurance markets and financial stability. Part of the NYDFS mandate is to ensure the prudent conduct of providers of financial products. Investing in or underwriting assets in a way that is incompatible with science-based emissions targets puts the entire financial system at risk. Such conduct cannot be prudent. NY DFS should also clarify that in analyzing the various scenarios listed here, insurers should take a precautionary approach instead of assuming a best-case version of the likelihood and impact of each scenario. We cannot know which scenario will develop or predict the exact contours of the disorderly scenarios. Insurers should not avoid preparing for a scenario by assigning it a low probability or assume that applying existing hedges and business practices will allow them to weather those scenarios. Instead, insurers should develop solutions that are robust to uncertainty, not just risk. This means major reductions in coverage and investment in high transition risk assets and a comprehensive strategy for supporting mitigation of physical risks, especially in low-income and minority communities.	Public Citizen	Yevgeny Shrago	Policy Counsel
9	3.1 Proportionate Approach	16	Deletion	Remind insurers that exiting markets and raising premiums cannot be the primary tools they use to manage long-term risk, especially when they consider their underwriting of risks in low-income and minority communities. Also note that given the uncertainty of climate change, insurers should not rely on the idea that a risk will only manifest in the medium-term or long-term when developing the timing of their strategic response plans. Because climate change is non-linear and the geography and timing are characterized by substantial uncertainty (and the uncertainties increase at higher levels of specificity), risks that appear to be many years in the future may manifest sooner than expected.	Public Citizen	Yevgeny Shrago	Policy Counsel
10	3.2 Materiality	18	Clarification	Given the unpredictability of climate risk, insurers should not be overly reliant on specific quantitative cutoffs and should apply the precautionary principle when making adjustments based on their professional judgment, particularly when those judgments would ordinarily counsel taking on additional risk. Any materiality determinations should include contributions that the insurer makes to the risk climate change poses to the broader financial system. Underwriting or investing in emissions-intensive activities can create unpredictable risks down the line for both the insurer in question, the broader insurance market, and the financial system. Models today are not sophisticated enough to determine whether such contributions are material. The precautionary approach counsels reducing emissions even if they are not obviously material.	Public Citizen	Yevgeny Shrago	Policy Counsel

11	3.3 Risk Culture and Governance	21	Deletion	Eliminate the reference to a carbon tax, as it is too narrow and has the potential to distract from other policy, technological, or economic changes that insurers must account for. The overall point can be made that climate change is highly unpredictable and circumstances can rapidly shift in ways that suddenly make it apparent that an insurer is more vulnerable to climate change than previously thought.	Public Citizen	Yevgeny Shrago	Policy Counsel
12	3.3 Risk Culture and Governance	22	Amendment	The risk appetite statement should include appetite for the risks posed by contributing to emissions. These decisions affect the long-term financial interests of the insurer. These statements should reflect a science-based understanding of the likely catastrophic impacts of under-mitigated climate change on insurance markets. It should also include appetite for the reputational risk associated with investing in and underwriting fossil fuel and deforestation projects. This is a meaningful risk and will only grow more serious over time.	Public Citizen	Yevgeny Shrago	Policy Counsel
13	3.4 Business Models and Strategies	25	Clarification	Exposure to a climate-related physical or transition risk includes the risk of reputational or strategic harm coming from continued investment or underwriting of fossil fuel and deforestation projects. Also, given the uncertainty inherent in climate change, insurers should apply their climate risk management processes across all business units. Insurance companies may not be well positioned to assess how risks will evolve, and the precautionary principle dictates taking a broad view of where climate risk may develop.	Public Citizen	Yevgeny Shrago	Policy Counsel
14	3.5 Risk Management	30	Clarification	Use of "limits on investment and/or underwriting exposure to sectors or companies exposed to high climate risks" should explicitly include consideration of all companies in high emissions sectors. Limits on investment exposure to geographies with high physical risks should not include pulling coverage or disinvesting from low-income or minority communities.	Public Citizen	Yevgeny Shrago	Policy Counsel
15	3.5 Risk Management	32	Amendment	Add that reducing concentration of risks should not come at the expense of low-income or minority communities.	Public Citizen	Yevgeny Shrago	Policy Counsel
16	3.5 Risk Management	33	Clarification	The future impacts of physical and transition risks on customers includes the impact of the insurer's own investments and underwriting on the physical and transition risk that those customers face.	Public Citizen	Yevgeny Shrago	Policy Counsel

17	3.5 Risk Management	34	Amendment	Add that the compliance function needs to monitor compliance of internal policies and procedures with public climate and environmental stewardship commitments. Failure to comply with these commitments increases both the short-term reputational risk that insurers face and exposes them to increased long-term physical risks.	Public Citizen	Yevgeny Shrago	Policy Counsel
18	3.5 Risk Management	36	Amendment	Add that not only should the ERM function address all reasonably foreseeable and relevant material risks, but that it also should address relevant uncertainties. These uncertainties should be managed in most, if not all, cases with a precautionary approach.	Public Citizen	Yevgeny Shrago	Policy Counsel
19	3.5 Risk Management	37	Deletion	Strike the third sentence. Climate change is a sufficiently complex process that it would be unsupported to signal DFS's belief that a particular risk from climate change will be small. It would be more appropriate to state that while it may appear that credit risk is likely to have a small relative impact, large scale changes driven by developing physical risks may create a tipping point that triggers large scale credit risks, including the failure of important counterparties during times of stress.	Public Citizen	Yevgeny Shrago	Policy Counsel
20	3.5 Risk Management	37	Amendment	Add that climate-related risks are highly correlated, increasingly the likelihood that climate-related stresses will materialize at similar or the same times among an insurer and its counterparties and reinsurers.	Public Citizen	Yevgeny Shrago	Policy Counsel
21	3.5 Risk Management	41	Amendment	Add that assets with the highest level of exposure to transition risks are among the most procyclical, making the risks very difficult to hedge or diversify. Insurers should not rely solely on modeled risk in determining the safety and soundness of investments exposed to significant levels of physical or transition risk.	Public Citizen	Yevgeny Shrago	Policy Counsel
22	3.5 Risk Management	41	Deletion	Remove the "introduction of a meaningful price on carbon" as the triggering event for stranded assets. Many other potential climate policies and technological and economic changes are at play. Insurers should take into account that, with changing consumer sentiments and continued development of low-carbon energy sources, stranded high-emission assets are increasingly likely even in the absence of strong climate policy.	Public Citizen	Yevgeny Shrago	Policy Counsel
23	3.5 Risk Management	43	Clarification	The encouragement for insurers to consider the timeframe in which climate risks might manifest should note that climate risks are nonlinear and complex and may develop earlier than current expectations predict. It should also note that given the timeframes of fixed income investments, contributions of insurers to climate change will increase the risks to the solvency and security of their own investments.	Public Citizen	Yevgeny Shrago	Policy Counsel

24	3.5 Risk Management	43	Amendment	Add that insurers should account for the risk from following credit rating agency methodologies too closely, and conduct appropriate due diligence to avoid risk from mass downgrades. Currently, credit rating methodologies related to climate and other exposures are typically too vague to be used as a basis for a credit rating. Credit ratings firms often inflate initial ratings, which may persist until an event triggers a massive reconciliation, usually in the form of a downgrade. Insurance companies should be aware of this risk and prepare for it appropriately.	Public Citizen	Yevgeny Shrago	Policy Counsel
25	3.5 Risk Management	44	Clarification	Emphasize that reputational risk will be particularly serious if insurers reduce availability or affordability for hard-hit frontline communities.	Public Citizen	Yevgeny Shrago	Policy Counsel
26	3.5 Risk Management	45	Amendment	Add that it is not appropriate for insurers to manage pricing and underwriting risk by planning to increase the price or reduce access to coverage for low-income and minority communities.	Public Citizen	Yevgeny Shrago	Policy Counsel
27	3.5 Risk Management	46	Clarification	It is not only social movements calling for divestment, but a broad and growing segment of society that values companies that are aligned with avoiding the climate crisis.	Public Citizen	Yevgeny Shrago	Policy Counsel
28	3.5 Risk Management	48	Clarification	Add that beyond competition effects of climate risk response on specific insurers, one major strategic risk is that continued contribution to climate change by insurers puts the entire insurance market at increasing risk, reducing the stability and profitability of all insurance companies.	Public Citizen	Yevgeny Shrago	Policy Counsel
29	3.5 Risk Management	49	Amendment	Include that managing physical risk on both sides of the balance sheet will be difficult via ordinary hedging activities, as the effects of climate change are unpredictable and may change the correlations among asset classes. Climate risks are also rising in number, intensity, and complexity, increasing the chance that risks that are uncorrelated will nonetheless materialize near in time to one another. Reducing exposure to much better understood transition risks is the most straightforward way to manage this uncertainty.	Public Citizen	Yevgeny Shrago	Policy Counsel

30	3.6 Scenario Analysis	55	Amendment	Recommend that insurers include a scenario in which their underwriting and investment portfolios align with science-based targets (at least a 45% reduction in emissions and no fossil fuel investments or underwriting by 2030, zero emissions by 2050, with sharply limited reliance on offsets or currently unproven or infeasible technologies). This scenario is necessary so that insurers and supervisors understand how far insurers' current practices deviate from what is needed to avoid climate catastrophe. The Climate Guidance should also emphasize the importance of a precautionary approach in assessing the impact of risks, particularly for medium- and long-term planning. Sophisticated analyses of these risks should go beyond extreme weather and sea level rise and include consideration of large scale migration, shifting agricultural belts and megadroughts leading to global hunger and water scarcity, increased violence, and other catastrophic harms that under-mitigated climate change will cause.	Public Citizen	Yevgeny Shrago	Policy Counsel
31	3.6 Scenario Analysis	58	Amendment	Note planning on reactive action may not leave sufficient time to consider the impact of asset sales or changes in affordability or availability of coverage on low income and minority communities.	Public Citizen	Yevgeny Shrago	Policy Counsel
32	3.7 Public Disclosure	63	Amendment	The Department should add more specific expectations for what insurers disclose, going beyond the NAIC survey. A major challenge of existing voluntary disclosure frameworks is that they do not allow enough comparability across companies and that no framework covers the full range of issues that markets need to see. To the extent that the department values public disclosure, it should adopt further guidance explaining what needs to be disclosed. This should include line item financial metrics that show vulnerability to transition and physical risk. While some will take time to develop, one clear starting point is public disclosure of investments and underwriting of fossil fuels, broken down by asset type. Requiring these disclosures will serve a prudential function regarding climate-related risk. They will enable the public, supervisors, and investors to monitor transition risk and contributions to physical risk; and they will highlight insurers with investments and underwriting that will cause reputational harm. As climate models become more sophisticated and better understood by the public, these reputation risks will increasingly be a proxy for transition and physical risks.	Public Citizen	Yevgeny Shrago	Policy Counsel
33	3.7 Public Disclosure	64	Amendment	Add the expected upcoming SEC climate disclosure rulemaking as an important touchpoint and state that private insurers need to provide substantially similar disclosures as their public company counterparts.	Public Citizen	Yevgeny Shrago	Policy Counsel

On behalf of Public Citizen, a national public interest advocacy group, and more than 500,000 members and supporters, we welcome the opportunity to comment on the New York Department of Financial Services' ("DFS") Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change ("the Climate Guidance"). We applaud DFS's leadership in recognizing the risks that climate change poses to insurance markets and consumers, and its willingness to move quickly to begin managing the crisis. But as the climate crisis continues to accelerate, DFS must take an active role in directing insurers' responses, requiring them to take a sufficiently broad view of the risks they face and create and how to address them, and making sure that the solutions do not burden New York residents, including its low-income communities and communities of color. As society's risk managers and major holders of investments, insurers have an important role to play in an orderly transition to a low-carbon economy. The Climate Guidance is particularly needed because U.S. insurers lag their international counterparts in fulfilling this responsibility. As of 2020, only one major American insurer was among the leaders in the Insure Our Future Scorecard, while six major American insurers, including New York domestic insurer AIG, brought up the rear. Many major U.S. insurers continue to underwrite coal and oil and gas without any restrictions, and every major U.S. insurer supports lobbying organizations that oppose climate action. New York's domestic insurers are vulnerable to climate change. A recent study by the 2 Degrees Investing Initiative commissioned by DFS shows that carbon intensive holdings in the fossil fuel and automotive sectors make up 17% of all insurer's equity and corporate bond holdings. Life insurers have particularly high, long duration, exposure to these sectors in their corporate bond portfolio. NY insurers are overweight relative to the market in most of these sectors, especially when it comes to coal production. Many insurers have even riskier individual profiles, with one insurer having its entire equity portfolio invested in fossil fuels. This behavior exposes New York insurance companies to ever-increasing physical, transition, and reputational risks from climate change. Without firm regulatory intervention, these insurance companies are unlikely to reverse course and adopt prudent climate policies. Unfortunately, U.S. state insurance regulators are also well behind in adapting to climate risk. Only DFS and five other states' insurance regulators administer the National Association of Insurance Commissioners (NAIC) Insurer Climate Risk Disclosure Survey to insurers licensed in those states. And this survey was designed in 2009 and is now outdated. Analysis by the American Academy of Actuaries shows that the current survey format yields only the bare minimum reply from the majority of insurers. The NAIC is in the process of revising the survey, but the revisions will take time and are not guaranteed to yield meaningful improvements in disclosure. By proposing this guidance, DFS has taken a needed step to catch up with other leaders in climate risk regulation, like the Bank of England's Prudential Regulation Authority and the European Insurance Occupational Pensions Authority. Other states are also following suit and even pushing further. On June 17, 2021 the Connecticut General Assembly adopted implementing budget legislation which included, in Section 364, the first ever direction to a state insurance regulator to not only supervise insurers' climate risk, but to incorporate alignment of their investments and underwriting with science-based emissions targets.	Public Citizen	Yevgeny Shrago	Policy Counsel

DFS should go beyond catching up to the current leaders and use the Climate Guidance as an opportunity to establish a gold standard in climate risk management among regulators. Only by prioritizing climate risk management can DFS fulfill its responsibilities to safeguard the continued solvency, safety, soundness and prudent conduct of the providers of financial products and services, to encourage high standards of honesty, transparency, fair business practices and public responsibility among insurers, and to protect users of insurance, as required by New York Financial Services Law 201. First, DFS should explicitly direct insurers not to treat climate change as just another business as usual risk. That attitude will expose New York's consumers and economy to a heightened risk of 2008-style financial shocks. To keep a climate-driven failure from propagating broadly into insurance markets and harming consumers, DFS should instead direct insurers to adopt a precautionary approach when assessing and addressing the risks of climate change. Insurers must recognize that climate risk is different. The Climate Guidance does an excellent job of highlighting that climate risks are "non-linear, correlated, and irreversible." It also emphasizes that DFS is focused on the financial stability of insurers in the face of climate change. DFS should take this perspective to a logical conclusion and remind insurers that they cannot base their response to climate change on models that hedge and diversify risks in ways that maximize shareholder returns. The lesson of the 2008 financial crisis is that even supposedly sophisticated risk managers, like AIG, cannot engineer away unpredictable threats. The size and uncertainty of damage from climate change will fuel similar or even bigger threats. A business as usual approach will then similarly result in contagion, bailouts, and untold economic harm. The appropriate precautionary approach means taking on less risk than what models suggest is acceptable. It means building larger margins of error into risk management procedures. And it means assuming every part of the business is subject to climate risk, even if it seems implausible, because what is plausible can change quickly as climate change progresses. Only this kind of approach will make insurers resilient to the coming climate shocks and truly safeguard financial stability. Second, DFS should also focus on reducing insurer's contributions to climate change. Limiting the emissions that underwriting and investments make possible must be part of any prudent insurer's governance and strategy. The 2 Degrees Investing Initiative study found that New York insurers' investments were not aligned with Paris goals, implying instead a production volume of fossil fuels consistent with temperatures rising by 3°C. Temperature increases of this magnitude would have catastrophic impacts on human civilization, let alone financial markets. To avoid drastic and potentially uninsurable physical impacts, global warming must be kept below 1.5°C above pre-industrial levels. Some may object that reducing emissions goes beyond DFS's mandate and stated focus on financial stability. But DFS's goals include requiring prudent conduct from financial institutions, promoting the prudent and continued availability of insurance products at affordable prices, and encouraging high standards of public responsibility among insurers. The Climate Guidance acknowledges that an orderly, timely transition will be less disruptive to the economy and financial markets than a disorderly transition or one that comes too late. Such a transition will require a 45% reduction of emissions by 2030 and net-zero emissions by 2050. Blowing through those limits will damage insurance markets and threaten financial stability. If current			

trajectories of fossil fuel investment hold, temperature increases will not just threaten financial stability, they are likely to completely undermine it. The Climate Guidance recognizes that a strategic response to climate change requires a longer-term view than the typical three to five year planning horizon. This is especially important for life insurers and others with long duration assets and liabilities. By virtue of their role as risk managers, insurers have significant influence over how well the rest of the economy aligns with emissions targets needed to maintain financial stability. DFS should make using this influence to reduce greenhouse gas emissions part of its expectation for what constitutes an insurer's prudent conduct. Otherwise, insurer behavior will increase the long-term risk of global emissions exceeding science-based targets, threatening their own solvency and financial stability. The 2 Degrees Investing Initiative's report recognizes that insurers' tools for managing climate risk include divestiture of existing assets and exclusion of future investments that are incompatible with science-based climate targets. It is firmly within DFS's responsibility and authority to protect financial markets from the harms of climate change by highlighting these tools and requiring insurers to incorporate them into their governance, strategic planning and risk management frameworks. Finally, DFS should require insurers to assess and mitigate the impact that their risk management strategies will have on consumer markets and especially on low-income communities and communities of color. The Climate Guidance warns that insurers may face reputational risks to the extent they choose to mitigate climate risk by reducing affordability or availability of insurance. It should also recognize that unless insurers plan ahead, they may conclude that increasing premiums or reducing coverage are the only cost-effective options for managing the costs of climate change. Already, in response to unprecedented wildfires in the western United States over the past few years, property and casualty insurers have been exiting fire-prone regions. Without additional guidance from DFS or legislative intervention, exit by insurers in response to increasing physical risks will threaten the state's economic development and harm vulnerable communities. If insurers decide to exit vulnerable areas and markets, low-income communities and communities of color will be hit the hardest. The Climate Guidance acknowledges the disproportionate impacts of climate change on these communities. DFS should also recognize that if insurers do begin to raise prices or withdraw from areas that suffer the most from climate change, that will only deepen the damage to these already underserved communities. Beyond making it harder to recover from acute climate impacts like flooding and severe weather, insurer withdrawals will broadly raise the costs these communities face for housing and essential services. Insurers need additional guidance from DFS on how to protect continued affordability and availability. In particular, DFS should review whether planning to manage climate risk by withdrawing from or increasing prices for communities of color violates Section 2606 of the Insurance Law's prohibition on discrimination because of race or color. DFS can also provide more detail on its encouragement for insurers to avoid needing to withdraw or raise prices by proactively investing in climate resilience and adaptation strategies for vulnerable communities. One step it should			

recommend is reviewing whether any of the insurer's current investment or underwriting choices are exacerbating climate and other environmental harms. Not contributing to climate risks is an essential early step to mitigating them.. Overall, DFS should clarify an expectation of insurers supporting low-income communities and communities of color as they deal with the climate crisis, not abandoning them at the worst possible moment.

U.S. insurers must prioritize managing climate risk if we are to avoid catastrophic harm to both financial markets and the wider economy. The Climate Guidance is an important step forward, but DFS can build on it, incorporate the recommendations in this comment, and keep learning about new opportunities to address the climate risks that insurance companies face and create. We appreciate your leadership in this area and encourage you to continue to learn quickly and move aggressively to protect consumers and the New York economy from harm.

If you have any questions, please contact David Arkush, Managing Director of Public Citizen's Climate Program (darkush@citizen.org) and Yevgeny Shrago, Policy Counsel in Public Citizen's Climate Program (yshrago@citizen.org).
Signers:
Public Citizen
Americans for Financial Reform Education Fund
Businesses for a Livable Climate
CatholicNetwork US
Citizen Action of New York
Earth Action, Inc.
Earth Guardians
Friends of the Earth
Long Island Progressive Coalition
Natural Resources Defense Council New York
New York Communities for Change
New York Youth Climate Leaders
Oil Change International
People's Climate Movement - NY
The Peoples Hub
Rachel Carson Council
Rainforest Action Network
Rapid Shift Network
Rise and Resist
Sierra Club
Sunrise Project U.S.
Zero Hour

350 NYC 350.org							
1	1. Introd uction	1,2		Health plans agree with the Department that climate change is a critical problem and, that as good corporate citizens, plans have a responsibility to take all necessary actions to preserve our environment. To that end, a number of plans have recently taken several important steps to address climate change. Some of these actions include "Going Green" initiatives to encourage enrollees and staff to choose paperless options, and regular reports on the status of identified risks and plans to mitigate these risks to Boards of Directors. Plans are committed to continuing to work with the Department to further advance these goals.	New York Health Plan Association	Leslie S. Moran	Senior Vice President

2	2. Financial Risks from Climate Change	10	Clarification	Financial risks from climate change, if determined to be material, should be considered at a holding company level. With this observation in mind, the Financial Risk section of the Guideline addresses risks that affect property/casualty insurers. As presented, it does not translate easily to health insurance companies.	New York Health Plan Association	Leslie S. Moran	Senior Vice President
3	3.1 Proportionate Approach	13	Clarification	Guidance over climate change risks should be more principles based versus prescriptive so as to avoid a one size fits all disclosure model which doesn't as easily enable materiality to guide breadth and depth of oversight and disclosure.	New York Health Plan Association	Leslie S. Moran	Senior Vice President
4	3.2 Materiality	17, 18	Clarification	Materiality should be better defined and more fully considered, including considering the that used by the courts in interpreting the federal securities law.	New York Health Plan Association	Leslie S. Moran	Senior Vice President
5	3.3 Risk Culture and Governance	21, 22	Clarification	Developing process, controls, governance, and monitoring for climate risks not determined material by management would be inconsistent with other risks deemed to not be material, and they would not pass a typical cost/benefit analysis. Significant time and costs will likely be a needed to develop, implement and refine processes, controls, and governance around climate change disclosures, to the extent determined to be material for an organization.	New York Health Plan Association	Leslie S. Moran	Senior Vice President
6	3.5 Risk Management	53	Amendment	Reporting regarding climate change should be – at the discretion of the insurer – at the corporate level where the decisions are made. That is, enterprise or legal entity whichever the insurer believes is appropriate. We recommend amending the Guidance to provide this flexibility.	New York Health Plan Association	Leslie S. Moran	Senior Vice President
7	3.7 Public Disclosure	61, 62, 63, 64	Clarification	We request more information to better understand the Department's disclosure requirements and suggest DFS take the size of the insurer and their effects on climate change and sustainability when developing them. We also suggest DFS specify the method of the required disclosure (i.e., report on Company website; report filed with the DFS) in its final guidance.	New York Health Plan Association	Leslie S. Moran	Senior Vice President
8	3.7 Public Disclosure	65	Clarification	We suggest the Department develop appropriate disclosure requirements based on the size of an insurer that recognize the differential costs of producing a TCFD report. HPA and plans would be happy to work with the Department to develop solutions that ensure all insurers are providing the information DFS needs and are appropriately scaled to the size and purpose of the enterprise.	New York Health Plan Association	Leslie S. Moran	Senior Vice President

9	3.7 Public Disclosu re	61, 62, 63, 64, 65	Clarifica tion	In addition to the comments above, we suggest DFS phase in disclosure requirements. Doing so will allow the Department to adapt them as the challenges to support preservation change while providing insurers with a greater understanding of DFS's expectations.	New York Health Plan Association	Leslie S. Mora n	Senior Vice Presiden t

The New York health Plan Association (HPA) is a statewide trade association representing 28 managed care health plans that provide health insurance coverage to more than eight million New Yorkers. We offer our comments on behalf of HPA's member plans.	New York Health Plan Association	Leslie S. Mora n	Senior Vice Presiden t
We suggest that the guidance should recognize that the existing investment limitations applicable to health insurers and HMOs serve to significantly mitigate financial risk	New York Health Plan Association	Leslie S. Mora n	Senior Vice Presiden t
With the SEC and other regulators exploring climate change exposure drafts, from a cost/benefit and proper design and implementation perspective. it would be best to better align/consider climate change standards broadly.	New York Health Plan Association	Leslie S. Mora n	Senior Vice Presiden t
We suggest the Department include Sustainability along with Climate Change in the Proposed Guidance.	New York Health Plan Association	Leslie S. Mora n	Senior Vice Presiden t
We suggest the Department include Insurer Segment level expectations (i.e., health insurer, life insurer, property and casualty insurer) to assist insurers in establishing processes to meet the requirements of the Proposed Guidance commensurate to the risk by type of insurer.	New York Health Plan Association	Leslie S. Mora n	Senior Vice Presiden t
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also: Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk Prevent insurers from fueling the climate crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state’s economic development and harm vulnerable communities. Thank you,		Donna Seym our	

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It is great that the DFS is instructing insurers to deal with very serious climate risks. The current proposal includes important first steps, but we need more. I ask DFS to also: • Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures and assume every part of the business is subject to climate risk. • Prevent insurers from fueling the climate crisis. Absolutely, instruct insurers to stop underwriting and investing in fossil fuels. • Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities.		Nadin e Godwi n	

I am not at all familiar with the realm of risk management or insurance, I am however a member of the human race in the time of the Anthropocene. What I do know is that we are in a climate catastrophe and it is too late in the game, (last of the 9th inning/4th quarter, final two minutes) to play at business as usual. Greta Thornberg is alltogether correct in saying "the house is on fire," time to put away the toys! We can no longer finance, support or give cover to extractive industries which contribute directly, detrimentally, and materially to our earth's warming by human activity for profit or any other reason. We must fully fund alternative, renewalble sources and research for replacing all non-renewable fuels such as you are considering here. The risks are huge and are taken at our peril. Every sector of the world economy and area of (inter)national life must address this moment, we won't have another to do so. It's about our future, the extinction of habitat and the non-human species we share the planet with, and it's especialy about the kids. Do you have kids? Do the right thing for them. Short-term profit is a piss poor (suicidal) reason, "we pay through the nose for short lved shows!"	Emmanuel Baptist Church - Albany, NY	Mark Chaffi n	Rev.
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also: 1) Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk. 2) Prevent insurers from fueling the climate crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. 3) Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities.	Peoples Climate Movement - NY	Laurel Tumar kin	
Bloomberg L.P. appreciates the opportunity to provide comments to the New York State Department of Financial Services ("the Department") regarding its recent request for public comment on its Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change.We share the Department's recognition that there is an increasing demand and need for robust and consistent analysis of the financial risks associated with a changing climate for insurers. These financial risks – which include the potential for increased policy claims and increased investment risk and volatility – will affect both sides of an insurer's balance sheet. Recent experience demonstrates that the insurance industry is at a particularly high risk from claims due to climate change: the years 2017-2018 were the worst two-year period for global natural disasters on record, with insurers' losses totaling $225 billion. On the investment side, insurers also face serious risks where both physical and transition climate risks may cause rapid asset repricing and portfolio volatility, particularly for carbon-intensive investments. One report estimates that asset devaluation losses as high as $20 trillion could occur on the path to achieving the Paris Agreement's net zero target (see 2020 report "Building a sustainable insurance industry" published by the Insurance Governance Leadership Network). For the insurance industry, the interconnection of, and interaction among, various climate risks at the underwriting, investment, and macro-economic levels further exacerbate the industry's potential exposure. Finally, the systemic nature of climate change risk means it can be hard for insurers to address this threat simply through diversification. Fortunately, the Department can leverage the significant work, analysis, and development of climate-related financial disclosures that has occurred over the past decade and continues today. The disclosure framework and recommended disclosures developed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) can provide a starting point and foundation for the Department's work in this area. Its members represent insurers, providers of capital, large non-financial companies, accounting and consulting firms, credit	Bloomberg L.P.	Greg Babya k	Global Head of Regulato ry Affairs

rating agencies, and others. The TCFD has developed recommendations for more effective climate-related disclosures to promote more informed investment, credit, and insurance underwriting decisions. It is chaired by Mike Bloomberg, founder of Bloomberg L.P., and Bloomberg L.P. serves as the Secretariat of the TCFD. The TCFD offers a high level, globally-accepted, flexible framework on which to structure and base future disclosure standards and reporting requirements for insurers. The framework calls for disclosures related to four areas: Governance (i.e., board and management roles in assessing and managing climate-related risks), Strategy (i.e., climate risks and opportunities that affect a company's business strategy and operations, and how resilient a company's strategy may be to such risks and opportunities in the future), Risk Management (i.e., how climate-related risk is incorporated into a company's overall approach to risk management), and Metrics & Targets (i.e., what metrics and targets a company uses to assess climate-related risks and opportunities, and for example, the level of GHG emissions). More detail on this framework is in "Recommendations of the Task Force on Climate-related Financial Disclosures" (2017).We also recommend the Department review a supplemental TCFD report titled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (2017). In that companion report, supplemental guidance is provided specifically on insurance industry disclosure. For example, the report calls for insurance companies with substantial exposure to weather-related perils to consider using a greater than 2 degrees Celsius scenario in addition to a 2 degrees Celsius scenario to assess the risk they may face from the physical effects of a changing climate. Other insurance industry-specific disclosure recommendations include disclosure of liability risks that could intensify due to a possible increase in climate-related litigation; disclosure of aggregated risk exposure to weather-related catastrophes by jurisdiction; disclosure of any climate-related products or competencies under development (e.g., insurance of green infrastructure); and more. We also recommend the Department review the Sustainability Accounting Standard Board's (SASB) recommended standards for the insurance industry which contain a number of climate-related accounting metrics that were developed after extensive industry consultation. SASB's standards are consistent with the TCFD framework. Additionally, there are private sector-oriented forums that will contribute helpful perspectives and data which could advance disclosure rules and guidance. These include the CRO Forum and the UN-convened Net-Zero Insurance Alliance (NZIA) (note: NZIA is in the process of being established and is expected to launch later this year).Finally, we note that the area of climate-related financial risk assessment and disclosure for insurers is a rapidly evolving area. New methodologies for climate stress testing, portfolio risk metrics (such as financed emissions and weighted average carbon intensity), and data sources are being developed and tested by the industry. In this context, a flexible disclosure framework that can be built upon over time, such as the TCFD framework, presents a reasonable approach to achieving decision-useful disclosures over the near-term.It has never been more important for insurers to adequately prepare for and mitigate risks associated with climate change. We commend the Department for continuing to address this important issue.NOTE: links to the TCFD reports referenced in this letter can be found at https://www.fsb-tcfd.org/publications/			
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also**: 1. Direct insurers to account for the challenge of predicting risk due to climate change.** Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk. **2. Prevent insurers from fueling the climate crisis.** DFS should instruct insurers to stop underwriting and investing in fossil fuels. **3. Protect consumers, especially low-**		Megh an Jones	

income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities. Thank you for considering my opinion!			
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I'm glad that DFS is taking this important step to tell insurers that they must deal with serious climate risks. The current proposal includes critical steps, but I would also like DFS to direct insurers to account for the challenge of predicting risk due to climate change, prevent insurers from fueling the climate crisis by directing them to stop underwriting and investing in fossil fuels, and protect consumers (especially low-income communities).		Brook e Pierce	
It's been very important that the DFS has let insures know about the risks they are taking in relation to climate change. It's equall as important that insures know that Insures must take on less risk than the models predict, prevent insures from adding fuel to th fire by investing in fossil fules, and finally protect consumers especially low income people and communties of color.		John Ferrar i	
An investment portfolio with securities classified as HTM are not allowed to be sold without tainting the portfolio and jeopardizing a company's ability to use the designation in the future. If the portfolio is heavily invested in companies exposed to transition risk, would the action to sell these securities, as a part of a Climate Risk assessment for the organization, be permitted under the safe harbor rules?	Delta Dental of New York	James Mulle n	Manager
DFS should instruct insurers to stop underwriting and investing in fossil fuels. Our climate is in dire straits; please take the strongest action possible! Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk.		judy staple s	
Thank you for taking steps to help manage the climate change crisis. I strongly recommend that you direct insurers to stop underwriting and investing in fossil fuels. Also, insurers need to do a better job of managing climate risks.	Joe Average Citizen -- just a guy who cares about climate change	Micha el Gold	
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also: Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk. Prevent insurers from fueling the climate		steven goldm an	

crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities.			
1. Direct insurers to account for the challenge of predicting risk due to climate change. 2. Prevent insurers from fueling the climate crisis by limiting their underwriting and investing in fossil fuels. 3. Protect consumers, especially low-income people and communities of color. 4. Insurers provide coverage to fossil fuel projects and invest in fossil fuel companies. 5. The Risk: Insurers are supposed to be risk management experts. Climate change poses big risks. 6. Damages: In 2020, the global insurance industry lost $82 billion from natural catastrophes.		Diane Matza	
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. As someone who is deeply concerned about climet change, I ask DFS to also: Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk Prevent insurers from fueling the climate crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities.		Linda Trey	
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also: - Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk - Prevent insurers from fueling the climate crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. - Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities.	The Sunrise Project	Dana Affleck	

The members of the LeadingAge NY CCRC Cabinet, all either Article 46 or 46A licensed, unanimously and vehemently oppose the inclusion of our communities in the proposal by DFS that we should follow the climate change guidance being proposed for all NYS insurers. In short, the risks enumerated by DFS largely do not apply to CCRCs in two ways:1) Risk of losses as an "insurer" does not apply as we do not insure others' property, we do not insure for other organizations' business continuity, we solely provide cost mitigation for long term care on our campuses for contract holding seniors through an insurance-like product called Lifecare.2) Risk of property losses and negative impacts to our ability to care for our residents on our own campuses due to climate change impacts are already required to be planned for comprehensively as licensed Article 28 facilities and Adult Care Facilities that participate in Medicare and Medicaid. We all spend copious amounts of time and resources evaluating all types of risks to life and safety at our communities, and are subject to penalties, fines, and citations through the NYS NH surveillance programs. What DFS is proposing is redundant for our communities due to the existing regulatory environment we operate in. Furthermore, the Centers for Medicaid and Medicare Services (CMS) require under their rules of participation for all of our entities that we must comply with encompassing regulations under 42 CFR Part 483, Subpart B. Most relevant to this proposed exemption from further DFS oversight, is Part 483,73, Emergency Preparedness, which requires the following of our facilities, in italics.*The LTC facility must comply with all applicable Federal, State and local emergency preparedness requirements. The LTC facility must establish and maintain an emergency preparedness program that meets the requirements of this section. The emergency preparedness program must include, but not be limited to, the following elements: (a) Emergency plan. The LTC facility must develop and maintain an emergency preparedness plan that must be reviewed, and updated at least annually. The plan must do all of the following: (1) Be based on and include a documented, facility-based and community-based risk assessment, utilizing an all-hazards approach, including missing residents. (2) Include strategies for addressing emergency events identified by the risk assessment. (3) Address resident population, including, but not limited to, persons at-risk; the type of services the LTC facility has the ability to provide in an emergency; and continuity of operations, including delegations of authority and succession plans. (4) Include a process for cooperation and collaboration with local, tribal, regional, State, or Federal emergency preparedness officials' efforts to maintain an integrated response during a disaster or emergency situation. (b) Policies and procedures. The LTC facility must develop and implement emergency preparedness policies and procedures, based on the emergency plan set forth in paragraph (a) of this section, risk assessment at paragraph (a)(1) of this section, and the communication plan at paragraph (c) of this section. The policies and procedures must be reviewed and updated at least annually. At a minimum, the policies and procedures must address the following: (1) The provision of subsistence needs for staff and residents, whether they evacuate or shelter in place, include, but are not limited to the following: (i) Food, water, medical, and pharmaceutical supplies. (ii) Alternate sources of energy to maintain - (A) Temperatures to protect resident health and safety and for the safe and sanitary storage of provisions; (B) Emergency lighting; (C) Fire detection, extinguishing, and alarm systems; and (D) Sewage and waste disposal. (2) A system to track the location of on-duty staff and sheltered residents in the LTC facility's care during and after an emergency. If on-duty staff and sheltered residents are relocated during the emergency, the LTC facility must document the specific name and location of the receiving facility or other location. (3) Safe evacuation from the LTC facility, which includes consideration of care and treatment needs of evacuees; staff responsibilities; transportation; identification of evacuation location(s); and primary and alternate means of communication with external sources of assistance. (4) A means to shelter in*	LeadingAge New York	Michelle Gramoglia	CCRC Cabinet President

place for residents, staff, and volunteers who remain in the LTC facility. (5) A system of medical documentation that preserves resident information, protects confidentiality of resident information, and secures and maintains the availability of records. (6) The use of volunteers in an emergency or other emergency staffing strategies, including the process and role for integration of State or Federally designated health care professionals to address surge needs during an emergency. (7) The development of arrangements with other LTC facilities and other providers to receive residents in the event of limitations or cessation of operations to maintain the continuity of services to LTC residents. (8) The role of the LTC facility under a waiver declared by the Secretary, in accordance with section 1135 of the Act, in the provision of care and treatment at an alternate care site identified by emergency management officials. (c) Communication plan. The LTC facility must develop and maintain an emergency preparedness communication plan that complies with Federal, State, and local laws and must be reviewed and updated at least annually. The communication plan must include all of the following: (1) Names and contact information for the following: (i) Staff. (ii) Entities providing services under arrangement. (iii) Residents' physicians. (iv) Other LTC facilities. (v) Volunteers. (2) Contact information for the following: (i) Federal, State, tribal, regional, or local emergency preparedness staff. (ii) The State Licensing and Certification Agency. (iii) The Office of the State Long-Term Care Ombudsman. (iv) Other sources of assistance. (3) Primary and alternate means for communicating with the following: (i) LTC facility's staff. (ii) Federal, State, tribal, regional, or local emergency management agencies. (4) A method for sharing information and medical documentation for residents under the LTC facility's care, as necessary, with other health care providers to maintain the continuity of care. 5) A means, in the event of an evacuation, to release resident information as permitted under 45 CFR 164.510(b)(1)(ii). (6) A means of providing information about the general condition and location of residents under the facility's care as permitted under 45 CFR 164.510(b)(4). (7) A means of providing information about the LTC facility's occupancy, needs, and its ability to provide assistance, to the authority having jurisdiction or the Incident Command Center, or designee. (8) A method for sharing information from the emergency plan that the facility has determined is appropriate with residents and their families or representatives. (d) Training and testing. The LTC facility must develop and maintain an emergency preparedness training and testing program that is based on the emergency plan set forth in paragraph (a) of this section, risk assessment at paragraph (a)(1) of this section, policies and procedures at paragraph (b) of this section, and the communication plan at paragraph (c) of this section. The training and testing program must be reviewed and updated at least annually. (1) Training program. The LTC facility must do all of the following: (i) Initial training in emergency preparedness policies and procedures to all new and existing staff, individuals providing services under arrangement, and volunteers, consistent with their expected roles. (ii) Provide emergency preparedness training at least annually. (iii) Maintain documentation of the training. (iv) Demonstrate staff knowledge of emergency procedures. (2) Testing. The LTC facility must conduct exercises to test the emergency plan at least twice per year, including unannounced staff drills using the emergency procedures. The LTC facility must do the following: (i) Participate in an annual full-scale exercise that is community-based; or (A) When a community-based exercise is not accessible, conduct an annual individual, facility-based functional exercise. (B) If the LTC facility experiences an actual natural or man-made emergency that requires activation of the emergency plan, the LTC facility is exempt from engaging its next required a full-scale community-based or individual, facility-based functional exercise following the onset of the emergency event. (ii) Conduct an additional annual exercise that may include, but is not limited to the following: (A) A second full-scale exercise that is community-based or an individual, facility-based functional exercise; or (B) A mock disaster drill; or			

(C) A tabletop exercise or workshop that is led by a facilitator includes a group discussion, using a narrated, clinically-relevant emergency scenario, and a set of problem statements, directed messages, or prepared questions designed to challenge an emergency plan. (iii) Analyze the LTC facility's response to and maintain documentation of all drills, tabletop exercises, and emergency events, and revise the LTC facility's emergency plan, as needed. (e) Emergency and standby power systems. The LTC facility must implement emergency and standby power systems based on the emergency plan set forth in paragraph (a) of this section. (1) Emergency generator location. The generator must be located in accordance with the location requirements found in the Health Care Facilities Code (NFPA 99 and Tentative Interim Amendments TIA 12-2, TIA 12-3, TIA 12-4, TIA 12-5, and TIA 12-6), Life Safety Code (NFPA 101 and Tentative Interim Amendments TIA 12-1, TIA 12-2, TIA 12-3, and TIA 12-4), and NFPA 110, when a new structure is built or when an existing structure or building is renovated. (2) Emergency generator inspection and testing. The LTC facility must implement the emergency power system inspection, testing, and maintenance requirements found in the Health Care Facilities Code, NFPA 110, and Life Safety Code. (3) Emergency generator fuel. LTC facilities that maintain an onsite fuel source to power emergency generators must have a plan for how it will keep emergency power systems operational during the emergency, unless it evacuates. (f) Integrated healthcare systems. If a LTC facility is part of a healthcare system consisting of multiple separately certified healthcare facilities that elects to have a unified and integrated emergency preparedness program, the LTC facility may choose to participate in the healthcare system's coordinated emergency preparedness program. If elected, the unified and integrated emergency preparedness program must do all of the following: (1) Demonstrate that each separately certified facility within the system actively participated in the development of the unified and integrated emergency preparedness program. (2) Be developed and maintained in a manner that takes into account each separately certified facility's unique circumstances, patient populations, and services offered. (3) Demonstrate that each separately certified facility is capable of actively using the unified and integrated emergency preparedness program and is in compliance with the program. (4) Include a unified and integrated emergency plan that meets the requirements of paragraphs (a)(2), (3), and (4) of this section. The unified and integrated emergency plan must also be based on and include (i) A documented community-based risk assessment, utilizing an all-hazards approach. (ii) A documented individual facility-based risk assessment for each separately certified facility within the health system, utilizing an all-hazards approach. (5) Include integrated policies and procedures that meet the requirements set forth in paragraph (b) of this section, a coordinated communication plan and training and testing programs that meet the requirements of paragraphs (c) and (d) of this section, respectively. (g) The standards incorporated by reference in this section are approved for incorporation by reference by the Director of the Office of the Federal Register in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. You may obtain the material from the sources listed below. You may inspect a copy at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html. If any changes in this edition of the Code are incorporated by reference, CMS will publish a document in the Federal Register to announce the changes.			

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org ABOUT THIS CONSULTATION RESPONSE The New York State Department of Financial Services (DFS) seeks public comments on draft proposed guidance for New York domestic insurers on managing the financial risks from climate change. DFS expects this proposed guidance “to serve as a basis for supervisory dialogue and to help insurers familiarize themselves with climate risks and develop their capacity and processes for managing them. DFS will continue to develop its supervisory approach to managing and disclosing climate risks over time, considering U.S. federal and state regulatory developments as well as evolving practices in the industry and in the national and international supervisory community." For more information, contact: Edward Baker Technical Head, Climate Change and Energy Transition edward.baker@unpri.org THE PRI’S CONSULTATION RESPONSE The Principles for Responsible Investment (PRI) welcomes the New York State Department of Financial Services (DFS) Proposed Guidance for Domestic Insurers on the Financial Risks from Climate Change. As the insurance industry plays a key role as risk managers, risk carriers and investors, climate risk disclosure is essential to understanding the impact of climate change on the industry and on the portfolios they underwrite. The timing of the physical and economic effects of climate change are uncertain, but the risk is imminent. The California Insurance Commissioner’s climate risk scenario analysis of the California insurance sector revealed misalignment between fossil fuel investments and limiting global temperature increases to two degrees Celsius. A better understanding of climate risks for the insurance sector in New York State is needed. Therefore, the PRI supports the Department’s recommendations that insurers integrate climate concerns into their	Principles for Responsible Investment	Edward Baker	Technical Head, Climate Change and Energy Transition

governance structures, strategy and planning and risk management systems; conduct climate-related scenario analysis as part of this process; and disclose information related to these activities as part of their legally required Own Risk and Solvency Assessment (ORSA). The PRI furthermore supports the Department's view that "insurers should recognize that certain risks may be material, regardless of their numerical impact, based on external factors such as the industries in which an insurer operates or investor expectations." Climate change is a systemic risk that impacts investment decisions. It is investors' duty to consider all value drivers which could influence their ability to deliver on their investment objectives. The growth of demand for quantitative, standardized climate information that is reflects the growing understanding that climate factors are useful in investment decision-making as they relate to risks and opportunities. In fact, evidence continues to mount that consideration of climate factors in investment decision-making leads to better financial outcomes, sustaining the fiduciary duty of investors to systematically consider this information. However, the PRI recommends the Department strengthen the reporting requirements' alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. The TCFD framework has become the standard-setting body for climate risk disclosure globally, including in the European Union, the UK and Japan. The National Association of Insurance Commissioners (NAIC) began allowing insurers to submit TCFD reports in lieu of responses to its climate risk survey in 2020, and a recent letter from the Insurance Commissioners of California and Washington urges all insurers they regulate to submit TCFD reports. The letter notes that the TCFD figures prominently in the recent US Securities and Exchange Commission's Request for Comment on Climate Change Disclosure. In the PRI's response to the SEC Request for Comment, we recommended the Commission look to the TCFD Framework's 11 recommendations as they present a succinct and comprehensive baseline from which issuers can report climate information. The TCFD disclosure framework aligns with the topics DFS highlights as most important: governance, strategy (including scenario analysis) and risk management. It also requires disclosure of metrics and targets organizations have chosen to manage their climate risks and opportunities as well as the organizations' own operational emissions. The four pillars of the TCFD framework are key for determining climate risks: ■ First, the TCFD requests disclosure of the governance mechanisms in place to manage climate risk. Typically, these involve the inclusion of climate risk oversight in the responsibilities of a board committee or specific board member, as well as in the job description of one or more specific managerial employees. ■ Second, the TCFD asks for specific risks and opportunities that the firm has already identified regarding climate, over short, medium, and long-time frames. It asks not only what these risks and opportunities are, but how they are currently informing the company's business planning and financial strategy, and whether that strategy is robust, to the potential for a variety of climate-related future scenarios to unfold. It is this section of the TCFD that is most informative regarding the insurer's current assessment of how the economy-wide transformation necessitated by climate change is likely to affect its business.			

■ The third section of the TCFD requires disclosure about the processes being developed to identify, assess and manage climate risk, and thus provides essential information about how the insurer may respond to emergent climate-related risks that are not yet apparent, but are likely to become salient, given the dynamic and evolving nature of the climate crisis. ■ The fourth section of the TCFD asks for disclosure of the metrics issuers are using to measure climate risk (which include, but are not limited to, the issuer's own GHG emissions), as well as the targets toward which the insurer is working with regard to climate-related adjustments to its business model or operations. Mandating TCFD-aligned reporting would simplify regulatory requirements for New York insurers. Building on existing and widely used standards, such as the TCFD framework, comes with clear advantages, including aiding the speed and ease of implementation for insurers. Furthermore, relying on the TCFD recommendations would allow New York State to align with broader market trends towards national and global alignment. The PRI commends the New York State Department of Financial Services for proposing guidance for domestic issuers on climate-related financial risks alongside market practice at the state and federal level and looks forward to participating in future consultations on climate-related financial disclosures. The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the Department of Financial Services in developing guidance for insurers on climate change disclosures. Any question or comments can be sent to policy@unpri.org.			
I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also: Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk. Prevent insurers from fueling the climate crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state's economic development and harm vulnerable communities.		Michelle Freedman	
See the Ceres response letter at the end	Ceres Accelerator for Sustainable Capital Markets	Steven M. Rothstein	Managing Director,

				I was a youth organizer fighting to divest Columbia University's endowment from fossil fuels, as well as the NY city municipal pension fund, as well as the state pension fund. I commend DFS on taking this important step to instruct insurers to deal with very serious climate risks. The current proposal includes important steps. I ask DFS to also: Direct insurers to account for the challenge of predicting risk due to climate change. Insurers must take on less risk than what models suggest, build larger margins of error into risk management procedures, and assume every part of the business is subject to climate risk Prevent insurers from fueling the climate crisis. DFS should instruct insurers to stop underwriting and investing in fossil fuels. Protect consumers, especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state’s economic development and harm vulnerable communities. The insurance industry cannot get away with making a profit from the climate catastrophe while others sit by in our government and don't hold them to account.		Sofia Ida Petros	
				Insurers must account for the challenge of predicting risk due to climate change. As a research professional, I know that modeling is an inexact science. Insurers must take on less risk than what the central tendency of models suggest and assume that even the outer bounds of the prediction interval for climate predictions have often proved too conservative. Insurers need to build larger margins of error into risk management procedures and assume every part of the business is subject to risk from climate change. Insurers should not be fueling the climate crisis. They need to be instructed to stop underwriting and investing in fossil fuels. Protect all consumers – especially low-income communities and communities of color. Increased prices and exit by insurers in response to changing risks will threaten the state’s economic development and harm vulnerable communities.		Jim Derzon	
1	3.1 Proportionate Approach	14		"... a quantitative assessment should rely on sophisticated models..." This is quite true. I would encourage an explicit nudge that speaks to climate modeling. In our interactions with business entities there is still reticence to move past spreadsheet-based modeling, to embrace geospatial data and climate modeling. Much of this is a mismatch in skillsets. But such modeling is necessary to achieve an understanding of physical climate risk. And I would argue physical climate risk is foundational in that transition risk is rather moot point if the entire portfolio is wiped out. I realize this is perhaps a framing issue but it is quite important. This brings up a larger issue in that "climate compliance" is beyond most firms' comfort zone, meaning that third-party vendors will likely be sought out to provide such insight. Here, clear signals need to be sent regarding transparency and highest and best use of science. Guidance documents like this will create a market for such climate service providers. Creating the "right" market will guard against Big Short-like outcomes later.	Woodwell Climate Research Center	Christopher Schwalm	head of Risk program
2	3.1 Proportionate	15		"...will perform under various scenarios, such as:..." These four scenarios ought to be a bare minimum. I would encourage more detailed guidance on what constitutes a bona fide stress-test and the use of other scenarios in the climate context. As an example, there can be a transition from disorderly to orderly that happens at some threshold of climate damage.	Woodwell Climate Research Center	Christopher Schwalm	head of Risk program

	Approach			Also, a broader scenario catalogue will help each actor crystallize out the cost of inaction vs action. Encouraging capital allocation in a climate risk aware manner is the larger goal here. And that can only be guaranteed if the opportunity costs are clearly laid out.			
3	3.3 Risk Culture and Governance	23		"...insurers should nevertheless start the process..." I would favor some timeline on when to complete the process. In the next five years under "business as usual" there is about a 50:50 chance we will breach the Paris Climate Goal. For us to be on the wrong side of "dangerous levels of climate change" without any operational climate disclosure seems like a bad ending point here.	Woodwell Climate Research Center	Christopher Schwalm	head of Risk program
4	3.5 Risk Management	32		"...If the potential impacts of climate risks are determined to be material, DFS expects..." I would suggest disallowing the possibility that climate risks will be immaterial. Put another way, it ought to be the onus of the business entity to effectively demonstrate immateriality as opposed to using the mechanisms laid out in this document to show materiality as needed.	Woodwell Climate Research Center	Christopher Schwalm	head of Risk program
5	3.5 Risk Management	45		"...to understand how climate issues affect the pricing of and risks covered under the insurers' products." One issue we discuss in our interactions with private sector actors is the notion of climate risk becoming so high that certain geographies become uninsurable. Is there any DFS plan to address such an eventuality? If so, this might be a good point to socialize this problem.	Woodwell Climate Research Center	Christopher Schwalm	head of Risk program

LICONY Comments on *Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change*
June 23, 2021

The life insurance company members of the Life Insurance Council of New York (LICONY) share the Department's concern about the risks that climate change can present for insurers and we consider the DFS our partner in addressing those concerns. As you are aware (and to varying degrees based on the size, location and complexity of the entity), our members have already begun to incorporate consideration of this risk into their existing risk management processes, along with the many other risks presented to insurers.

We thank you for the opportunity to provide our feedback and suggested revisions on your *Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change.* We hope that this feedback will provide the DFS with helpful improvements to the Guidance, in order that the final version can assist our members as they continue to develop their approaches to climate risk assessment, management and reporting without imposing unnecessary or unrealistic expectations.

<u>Respective Roles of the Board of Directors and Company Management</u>

It is a well-established governance principle that the role of a Board of Directors is one of oversight. The Board does not manage issues. The Task Force on Climate-related Financial Disclosures (TCFD) recognizes this and appropriately draws the distinction between the Board's role as one of oversight and company management's responsibility to manage.

While the Department recognizes in Section 3.3.1 that the role of a company's Board of Directors is one of oversight, the language of the Proposed Guidance itself contains provisions that blur the line between the respective roles of the Board and company management. We urge the Department to: (1) respect that the role of the Board is one of oversight, leaving operational responsibility for addressing climate risk with company management and (2) revise the guidance to reflect the proper delineation of the roles of the Board and management. Additionally, we suggest that the Department should present this guidance as best practices for companies to consider, some or all of which could be employed depending on the nature, scale, complexity and type of business of the enterprise. We also urge you to make clear throughout the Proposed Guidance that any expectation it has for the Board, in an oversight capacity, can be fulfilled by an appropriate Committee of the Board.

Specific examples where the Proposed Guidance places unrealistic expectations on the Board, versus company management, include the following:

- On page three in the Overview of Supervisory Expectations, the Proposed Guidance suggests in item 1) that the Board should be responsible for managing climate risks. Managing climate risk should be a role of senior management, not the Board.

- Under §3.3.1, the Proposed Guidance suggests that the Board is responsible for assessing, managing and addressing climate risks. Although it is appropriate for the Board to understand and oversee climate change risks, along with all the other relevant risks posed to the company, it is the role of senior management to assess, manage and address those risks.
- Under §3.3.2, the Board would be responsible for (1) adopting a risk policy describing how the insurer monitors and manages climate risks in line with its risk appetite statement and (2) considering certain very detailed factors such as results of scenario analysis and stress testing for short, medium and long term horizons, uncertainty around the timing and channels through which climate risks may materialize, and sensitivity of both sides of the balance sheet to changes in key climate risk drivers and external conditions.

Although we agree that the Board would certainly have oversight and an advisory role with respect to the company's plans, strategies and decisions regarding climate risk (along with all of the other risks posed to the company), company management has primary responsibility for assessing, managing and addressing those risks. It follows, therefore that no single member or committee of the Board should be responsible for the assessment and management of climate risks (as is contemplated in paragraph 20); the Board and its members role is limited to oversight.

The Proposed Guidance would also require certain reports to the Board and items to be reviewed by the Board that are overly-detailed and not typical for Board oversight, at least not relating to one particular category of risk posed to the company. As examples:

- Paragraph 24(f) would require objective, independent and regular reviews of the functions and procedures for managing climate risks and requires report on the findings to the Board. This level of detailed reporting relating only to one category of risk presented to the company is not appropriate.
  Additionally, we believe that this paragraph should be revised to clarify that "independent" reviews will not necessarily equate to an external review by a third party. External reviews can be very costly, likely with little benefit, and a company's independent internal audit function, which regularly reviews processes and procedures, can be expanded to include this review.
- Paragraph 22 should be refined to clarify that the written risk policy adopted by the Board should include material climate change risks, among other material risks posed to the company, and does not require a separate risk policy dedicated to climate change risk.
- Paragraph 24(g) requires the development, at the Board level, of the knowledge required for the assessment and management of climate risk – this is an appropriate function for senior management. This paragraph could be read as an expectation that companies should appoint Board members based on their expertise and knowledge of climate change without due consideration of the needs of the Board and company as a whole. Although insurers could take that into consideration as one factor for Board appointees, Directors should not be appointed based on a singular consideration. Additionally, it is senior management, and not the Board, who largely directs resource allocation.
- Paragraph 28 would require that written Board risk reports document the climate risks considered, including their transmission channels and impact on existing risk factors. We do not believe that the Handbook calls out climate change as a unique risk. Climate risk should be considered in that context only along with all other risks posed to the company.
- Paragraph 29 would require climate risk indicators and metrics to be reviewed periodically by the Board. Although climate risk indicators and metrics should be shared with the Board at least annually, progress on these indicators and metrics will be overseen by senior management.

- Paragraph 35 would require a company to provide its Board with information regarding exposures, mitigating actions and timeframes regarding their exposure to climate risk without regard to materiality.

We urge the Department to be more discerning about Board reporting requirements with an eye toward scaling back on them or at least clarify in all sections of the Proposed Guidance that references Board oversight that an appropriate committee of the Board can be responsible. Additionally, these provisions should be set forth as best practices, not necessarily requirements, since companies should feel free to work with their Boards in the manner most appropriate to ensure the proper oversight of the growth, safety and soundness of the company.

Risk Management

Climate risk is one of many risks considered by the Board and management. In fact, many of the expectations contained in the Proposed Guidance are already being addressed in a company's risk management function, even if they are not labeled or categorized as climate-related.

To varying degrees, our members already have in place a robust risk-related governance structure, risk management policies and procedures, and internal reporting structures, which address the many different types of risks posed to the company. In totality, we are concerned that the level of detail in the Proposed Guidance can be read to require insurers to treat climate change as a separate type of risk that should be considered a priority, above and beyond all other risks presented to the insurer. The Proposed Guidance creates a unique framework for assessing and managing climate risk, which is separate and apart from all of the other risks posed to the company, some of which may be a greater concern to the entity, depending on their circumstances. For instance, some life insurers may consider the sustained low interest rate environment as a greater risk to their enterprise than climate change.

In addition, climate risk may be incurred indirectly, such as through asset holdings, or manifest directly as a financial risk (e.g., credit risk) and would be addressed in the context of those risks. Leveraging the existing risk management framework ensures a more comprehensive approach to assessing the impact of climate change on the enterprise.

As climate risk is interconnected to many other risks, we believe the right approach is to continue to build climate risk into our current assessment processes, making adjustments as necessary over time and as the science, available data and risks presented evolve on this topic. The Proposed Guidance acknowledges this point in Paragraph 23. However, certain sections (i.e., 3.5.1.1 and 3.5.1.2) refer to risk management processes respecting climate change that are overly-detailed and prescriptive, and are likely impossible for insurers to reasonably comply with in light of available data and current science on the topic.

Although we believe it is consistent with the Department's intent that we continue to assess and manage climate risk as one part of our overall risk management process, we think that the Proposed Guidance may cause insurers to feel the need to place climate change risk as a greater priority above all other risks posed to the company, which may or may not be accurate depending on the circumstances of the company. Some examples follow:

- As previously noted, paragraph 22 seems to require a written risk policy dedicated to climate change. Climate change risks should be incorporated into the overall risk policy, which would include all of the risks to the company.

- ➢ Under paragraph 24, item a) -- it should not be necessary to “create” a new organizational structure solely to manage climate risks. Instead, climate risk(s) should be embedded and incorporated within the existing organizational structure. (The first bullet under paragraph 28 and Section 3.5.2 both take a more appropriate perspective.)
- ➢ Under paragraph 24, item b) -- it should not be necessary to establish explicit limits for climate risks. The expectation could be better framed as involving responsibility for integrating climate-related risks within existing risk factors.
- ➢ Paragraph 33 – the mandate that insurers need to analyze the risk of climate change to counterparties/customers should be tempered, in light of the current state of data availability and the varying levels of progress made on climate risk analysis across different industries. The current expectation in the Guidance may not be reasonable, as this information may not be readily available from counterparties/customers and/or they may not be willing to provide. The paragraph should be modified to recognize these practical limitations – perhaps incorporating a “best efforts” standard.

<u>Proportionate Approach</u>

The Proposed Guidance reflects in many places that an insurer’s approach to climate risk management should be proportionate to the nature, scale and complexity of its businesses. We agree with the proportionate approach and believe it will enable us to focus our efforts on the risks that a life insurer is most likely to have to address relating to climate change, along with all the other risks presented to life insurers. To that end, we believe that there are areas of the Proposed Guidance that could use greater specificity as to the differing risks posed to insurers, depending on their lines of business. As you are well aware, the risks posed to life insurers due to climate change are almost always very different than the physical risks posed to property/casualty insurers, for instance.

Some specific examples from the Proposed Guidance where we see the need for a better explanation that the proportionate approach should also reflect the distinct risks presented to different lines of business include the following:

- ➢ Section 3.1 and elsewhere in the Proposed Guidance the language should be revised to indicate that the proportionate approach should reflect nature, scale, complexity and *type of business* performed by the insurer.
- ➢ Paragraph 24(g). The resource expectations at the Board and senior management levels are likely to be different for life and property casualty (P/C) companies for certain risks.
- ➢ Paragraph 34. The actuarial function expectation seems more applicable to property/casualty companies whose actuaries are already assessing physical risks. Life companies tend to assess and manage risk through the credit risk management function, rather than actuarial.
- ➢ Section 3.6. The expectations regarding techniques used for scenario analysis and stress testing may be different for life insurers than they are for P/C insurers.
- ➢ Paragraph 55 – the physical risks from climate change are likely to be less acute for life insurers so a proportionate approach to scenario analysis should be taken.

<u>General</u>

- Throughout the Proposed Guidance, the Department provides that certain requirements should be performed at the entity level and others should be performed at the enterprise level. This is impractical and burdensome, as well as confusing and overly prescriptive. It is therefore critical that insurers should have the flexibility to comply at the legal entity level, the global group level, or somewhere in between.

- Proposed Guidance throughout should be revised to provide that any potential obligation should apply only where there is *material risk* relating to climate change. One example of where this is not clear follows:
  - Paragraph 52, last sentence should be refined to add that quantitative assessment *of material risks* should be a long-term goal.
- Paragraph 16 suggests an analysis of medium and long-term risks, with time horizons of 10 and 30 years suggested as examples. We recommend eliminating the examples.
  - Relatedly, we urge the DFS to reconsider the horizon of the long-term assessment established in Paragraph 56(b), which is currently described as being “in the order of decades.” This reference should be deleted and replaced with more general language that gives discretion to insurers to select a horizon that is likely to have value in light of the available data and current science.
- Paragraph 51 – A requirement to run just climate risk scenarios in a stressed environment could lead to redundancy, since some stressed environments might be driven by climate risks already. Language should be refined to add discretion to the insurer as to whether or not this is necessary.
- Paragraphs 63-64 outline a timeline of 2 -3 years for disclosing “key metrics and targets” related to climate risks. Given the relatively rudimentary understanding and modeling of climate-related risks, the evolution of science relating to climate change and the additional resources needed by companies, this timeline does not seem realistic. The reporting of data cannot precede the ready availability of reliable data, and requirements for modeling cannot precede the ability to perform such modeling. There remains a good deal of subjectivity in climate risk reporting and this should be considered in the establishment of any reporting schedule targets (see attached article on ESG scoring). This timeline should be reconsidered, and the plausibility and reasonableness of any timeline should be subject to ongoing assessment.
- Section 3.7 -- we note that many of our members are currently engaging with the TCFD framework in some form, however, the substance of the disclosure and the method of disclosing also will entail a developmental process over time. We anticipate that many of our members plan on including disclosures regarding climate risk within broader ESG reports. Additionally, although certain public disclosure of this information may be appropriate, due to competitive concerns, we strongly believe that any quantitative analysis disclosures should be disclosed only to the regulator and subject to applicable confidentiality provisions of New York law. Insurers should be provided with appropriate discretion in deciding the extent of public disclosures.
  - Lastly, paragraph 62 should not require companies to disclose potential liability risks, since to do so would be highly speculative and could potentially expose companies to additional liability.

Zurich NA edits on the Governance Section

Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change

Proposed Comments to Paragraphs 19-21 on Governance

Current Text with edits (footnotes in original omitted):

3.3 Risk Culture and Governance

3.3.1 Board Governance

19. The Handbook lays out the components of an effective corporate governance program. Consistent with the Handbook, DFS expects an insurer's board of directors (or an appropriate committee(s) thereof) or, if there is no board, the governing entity ("board"), to understand and assess relevant climate risks, and to address and oversee these risks within the insurer's overall business strategy and risk appetite. The board's approach should reflect an understanding of the unprecedented nature of climate risks as well as their long-term impact beyond the standard business planning horizon.

20. DFS expects insurers to designate a member or committee of the board~~, as well as a member of senior management most suited to the task within the insurer's organizational structure and given the insurer's climate risk profile, as~~ responsible for oversight of the insurer's ~~assessment and~~ management of climate risks. As climate change could impact multiple business units and require expertise from multiple functions, DFS recognizes that insurers may cascade specific oversight and responsibility through those business units and functions. As appropriate, the member or committee of the board may decide to delegate responsibility to one or more members of senior management most suited to manage or assess specific aspects of climate-related risk. For example, the insurer's Chief Underwriting Officer may be charged with embedding climate-related risks within underwriting decisions. ~~one option is to have an internal risk committee of senior management charged with understanding the changing risk landscape and identifying potential ways to address climate risks.~~

21. Some insurers may determine, after a thorough assessment, that climate risks are not material to their businesses. However, because of the changing nature of those risks, those insurers should still designate a member or committee of the board ~~and a member of senior management~~ to be responsible for oversight of the insurer's management of ~~for~~ climate risks. For example, the concentration of an insurer's investments in companies considered vulnerable to transition risks in the current regulatory environment might be below the materiality threshold set by an insurer. But if a meaningful national carbon tax (e.g., \$200/ton CO2-equivalent) is adopted and more companies are considered vulnerable to transition risks, that threshold could easily be met. Ensuring that the board and senior management stay abreast of evolving climate risks is critical.

Ceres
Sustainability is the bottom line.

Via Electronic Mail

June 23, 2021

Re: Proposed Guidance to New York Insurers on Managing the Financial Risks for Climate Change

Honorable Linda Lacewell
Superintendent
New York State Department of Financial Services
1 State Street
New York, NY 10004-1511

Dear Superintendent Lacewell:

We appreciate the leadership from you and your colleagues on the Proposed Guidance to New York Insurers on Managing the Financial Risks for Climate Change, issued on March 25, 2021 for public comment. The proposed guidance is the first detailed climate-related guidance issued by a U.S. financial regulator.

Your work here, and in so many other ways, is vital. This is an important and forward-looking document. We believe it can serve as a model for other insurance regulators across the nation.

Overall, Ceres believes there is a lot of excellent material here. It is thoughtful and well organized and addresses many important points. The Ceres Accelerator for Sustainable Capital Markets appreciates your forward movement here.

Background on Ceres, Our Investor Voice and Our Disclosure Background
Ceres is a nonprofit organization with a 30+-year history of working on climate change with leading global investors and companies.[1] From our founding in 1989,[2] disclosure has been at the core of our work. We create tools and standards that companies can use to meet mounting expectations for improved climate change and sustainability disclosure. We launched, in 2002, the Global Reporting Initiative (GRI) – the most widely used standard worldwide for sustainability reporting.[3] Ceres also leads the Investor Network on Climate Risk and

[1] See Ceres, *The 21st Century Corporation: The Ceres Roadmap for Sustainability* (Mar. 2010), at 35.
[2] See Ceres, *The Ceres Principles*.
[3] See Global Reporting Initiative, *Sustainability reporting is growing, with GRI the global common language* (Dec. 1, 2020). Approximately three-quarters of the G250 and two-thirds of the N100 now use GRI. The G250 refers to the world's 250 largest companies by revenue. The N100 are the largest 100 companies by revenue in each of 45 countries – a total of 4500 companies worldwide.

Sustainability, which comprises almost 200 investors that collectively manage over $37 trillion in assets under management.[4]

On behalf of this network, Ceres has engaged the U.S. Securities and Exchange Commission (SEC or Commission) to improve climate change disclosure in financial filings since 2004. A petition from Ceres and our investor partners led to the SEC's 2010 interpretive guidance on climate disclosure. We established the Ceres Accelerator for Sustainable Capital Markets in 2019 to expand this work to transform the practices and policies that govern capital markets in order to reduce the worst financial impacts of the climate crisis.[5] The Accelerator spurs capital market influencers to act on climate change as a systemic financial risk—driving the large-scale behavior and systems change needed to achieve a just and sustainable future and a net-zero emissions economy. We have also been working with insurance commissioners and the NAIC for over a decade on climate risk disclosure.

Ceres is also a founding partner of several initiatives where climate change disclosure is a core element. These include, among others, the Climate Disclosure Standards Board, an international consortium of NGOs working to align the global corporate model to equate natural capital with financial capital by offering companies a framework for reporting environmental information with the same rigor as financial information. Ceres also co-founded Climate Action 100+, an investor-led initiative with more than 570 investors, responsible for over $54 trillion in assets under management, to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change: improving their climate governance, cutting greenhouse gas (GHG) emissions and strengthening climate-related financial disclosures.

Ceres is also a founding partner of the Investor Agenda, a comprehensive leadership agenda on the climate crisis focused on accelerating investor action for a net-zero emissions economy, and the Net Zero Asset Managers Initiative, a group of 87 firms representing $37 trillion in assets under management that are setting 2050 decarbonization commitments and interim targets, and agreed to publish annual disclosures following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). And since 2016, Ceres and CookESG Research have provided the public excerpts of climate change-related disclosures from thousands of publicly traded companies, covering annual SEC filings from 2009 to the present.[6] Ceres also has a Company Network which includes several insurers, who we engage to raise their ambition on robust sustainability goal setting and improve resiliency in their operations.

Through this work, Ceres has developed a deep understanding of the significant gaps, weaknesses and inconsistencies in the current corporate disclosure regime. Corporate disclosures often do not capture adequately important and systemic financial climate risks that issuers face, concealing major vulnerabilities in the global financial system and preventing effective risk management and efficient capital allocation.

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[4] Ceres, Investor Network on Climate Risk and Sustainability, https://www.ceres.org/networks/ceres-investor-network

[5] Ceres, *Ceres Accelerator for Sustainable Capital Markets*.

[6] Ceres and CookESG Research, SEC Sustainability Disclosure Search Tool, https://www.ceres.org/resources/tools/sec-sustainability-disclosure-search-tool. The tool also provides additional search tools for finding companies' disclosures about risks related to human and workers' rights, carbon asset risks, water, and hydraulic fracturing.

Climate Change Poses Systemic Risks
We applaud the NY DFS initiatives to collaborate with insurers and banks to improve their climate risk management and facilitate their disclosure of consistent, comparable, and reliable information on climate change. As you have noted, climate change presents a profound, systemic risk to U.S. capital markets. We are already experiencing the effects of climate change and those effects will continue to worsen. New York's storm Sandy is but one of many vivid examples. Efforts to achieve significant mitigation of GHG emissions are underway in many nations, and these policies are likely to affect businesses and insurance markets in profound ways, such as changing business models and shifting capital flows away from carbon-intensive activities. This will likely impact the investment and underwriting activities of insurance companies.

We agree that the risks and impacts of the climate crisis include physical risks to real assets from climate-fueled weather events and litigation risks. The transition to a net-zero economy poses risks and opportunities in virtually every sector, affecting insurers' investments. All of these changes can combine in unexpected and correlated ways, with serious, disruptive impacts on asset valuations, global financial markets and global economic stability. Furthermore, climate change poses a variety of material risks to companies of all sizes in all industries across the nation. The costs of inaction to companies, investors, workers and savers could be dire in the medium and long term, and many severe impacts, such as those from floods, fires, droughts and hurricanes, are already being incurred in the short term.

Climate change risks permeate all aspects of capital markets, including the insurance industry. Much like cybersecurity, cryptocurrency risks and the coronavirus pandemic, climate change poses grave threats to investors, our markets, and our country. Also, climate change risks do not differentiate based on a company's size or sector. Because climate change already poses material risks to most industries[7], and as a systemic risk it threatens all industries, our assumption is that climate change is material to all companies.[8]

But as you know, disclosure on these risks is insufficient across industries. In October 2020, the Group of Thirty Working Group on Climate Change and Finance, co-chaired by Janet Yellen, found that climate disclosures "remain far from the scale" necessary for investors to "systematically channel investment to sustainable and resilient technologies and companies" and called on all national securities regulators to make the full set of TCFD disclosures mandatory by 2023.[9] Earlier this month the G-7 finance ministers issued a statement highlighting the importance of mandatory consistent climate disclosure.

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[7] Sustainability Accounting Standards Board, Climate Risk Technical Bulletin 2021 Edition (April 12, 2021) at 8, finding that 68 out of 77 industries in SASB's industry classification system "are significantly affected in some way by climate risk." https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/

[8] See Institutional Investors Group on Climate Change (IIGCC) response to UK Department for Business, Energy & Industrial Strategy (BEIS) consultation on mandatory climate-related financial disclosures (May 5, 2021) at 1, stating, "IIGCC's position is that climate change presents material risks to all companies, irrespective of size . . . ". IIGCC is the leading European membership body, with 300 members representing €37 trillion AUM, enabling the European investment community to drive progress by 2030 towards a net zero and resilient future.

[9] G30 Working Group on Climate Change and Finance, Mainstreaming the Transition to a Net-zero Economy (October 2020) at xvi, https://group30.org/publications/detail/4791. The We Mean Business Coalition has also called on international ministers to make the TCFD's recommended disclosures mandatory.

Specific Comments

In addition to the initiatives discussed above, our comments draw from the seminal analysis of the Commodity Futures Trading Commission's Climate-Related Market Risk Subcommittee. The Subcommittee brought together 34 diverse financial market participants that were unanimous in voting to approve the analysis and 53 recommendations in their final report, *Managing Climate Risk In The U.S. Financial System*.[10] Mindy Lubber, our President and CEO, proudly served on the subcommittee.

In the following, we provide comments organized by the relevant section in the consultation draft.

1. Introduction

We agree that climate change poses material risks to the financial system and to the insurance industry in particular. On page 2 you refer to the plan to develop a timeframe (#4). We look forward to DFS developing a detailed timeframe for implementation. We hope the initial phases of implementation occur in 2021, with other elements taking effect shortly thereafter. We also appreciate that you have identified that climate change, while impacting all of society, disproportionately affects communities of color across the Empire State and the nation. These communities especially do not have time to wait. The environmental racism that exists across the nation, including in New York communities, is being and will be exacerbated by climate change, and this is crucial to address.

In the overview of DFS supervisory expectations, you indicate that insurers should "[d]isclose its climate risk and consider the TCFD and other initiatives when developing its exposure approaches." Ceres believes that state insurance regulators, either on their own initiative or through the annual NAIC climate change questionnaire, should adopt **the 11 recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)** as a mandatory requirement. The TCFD recommendations have been endorsed by over 2,000 companies and investors globally as well as many nations, and Ceres believes that they should be mandated by all financial regulators for the entities that they regulate.

For example, Ceres has called for the Securities and Exchange Commission (SEC) to require TCFD-recommended disclosures for all US-listed companies in response to the Commission's request for public input on climate disclosure rules[11]. This recommendation was endorsed by investors with $2.7 trillion of assets under management. The SEC currently plans to release its draft climate disclosure rules for public comment in October.[12]

We recommend that DFS **incorporate the 11 recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) into its requirements**

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[10] "Managing Climate Risk in the U.S. Financial System," U.S. Commodity Futures Trading Commission, September 2020,
https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf

[11] https://www.ceres.org/sites/default/files/6-10-21%20Ceres%20Letter%20to%20SEC%20-%20Final.pdf; https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

[12] https://www.sec.gov/news/press-release/2021-99

for annual insurance filings. In addition, we recommend that the DFS **require disclosure, assured by a third party, of insurers' progress on announced science-based targets and other climate commitments**, in the form of clear, periodic updates on the status of and progress towards meeting those commitments.[13] To their credit, many companies (and a few insurance companies) have announced climate strategies, including net-zero ambitions for their operations and products, and reported on their progress towards meeting targets. These announcements may be the basis for investment and/or voting decisions by investors and investment managers. Yet investors currently lack transparency as to whether and how insurance and other companies follow through on their announcements. Many companies voluntarily disclose progress on these commitments, but it can be unclear what measures the company is using as well as whether the methodology to track the measure is consistent from period to period. Disclosure of voluntary commitments and progress to the DFS will help make the commitments credible, allow investors to reliably measure progress, and allow the DFS to better oversee the climate risks that insurers face.

We also recommend the DFS requires tabular disclosure of a insurer's estimated Scope 1, 2 and 3 greenhouse gas (GHG) emissions, assured at the reasonable assurance level, based on the GHG Protocol's well-accepted framework for measuring and reporting emissions, which covers direct and indirect emissions and the percentage of carbon, methane and other gases. Emissions reporting for insurance companies, including trends over time, is critical to investors' understanding of the quality of a company's earnings in the face of climate change and the energy transition as well as to an understanding of a company's liquidity and capital resources, especially in light of the climate commitments of financial institutions to restrict financing of emissions-intensive activities.

2. Financial Risk from Climate Change

We agree with your analysis of the financial risks from climate change. There are significant transition risks facing insurers, including physical risks and liability risks. Last October, Ceres published a report highlighting the risks associated with the balance sheets of the nation's largest banks.[14] This included highlights of hundreds of billions in risks from the syndicated loans from banks due to transition risk. While this report focuses on risk in the banking sector, many of the same factors are important for investments in the insurance sector. In fact, in 2016 Ceres produced a report on the risks for the portfolios of insurance companies.[15] These are but a few of the many resources that highlight the enormous risks to insurers' investments. While physical risks tend to grab the headlines with tragic fires and floods, record-setting droughts, ice storms and more, the transition risks potentially have an even greater impact on the safety and soundness of insurers' investments.

3. Proposed Detailed Guidance

3.1 Proportionate Approach

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[13] See Ceres, *Ceres Roadmap 2030* (Oct. 7, 2020). The Ceres Roadmap 2030 challenges companies to create and maintain disclosures that are goal- and metric-driven, consistent, comparable and verifiable, decision-useful, accessible and stakeholder relevant.

[14] https://www.ceres.org/resources/reports/financing-net-zero-economy-measuring-and-addressing-climate-risk-banks

[15] Ceres, Insurer Climate Risk Disclosure Survey Report & Scorecard, October 2016. Appendix A in the report provides a useful baseline of climate disclosure performance for the range of companies surveyed.

We strongly agree with point 16: that "[a] strategic response to climate change requires a longer view than the typical business planning cycle of three to five years." We welcome DFS's expectation that time horizons in which to expect a strategic response from insurers must lengthen commensurate with the development of climate-related risk profiles. However, the urgency of climate risk should compel the DFS to frequently revisit the state of the art and best practice in forward looking risk assessment by insurance companies. Companies must act right away to build resilience against a range of scenarios of future risks.

3.3 Risk Culture and Governance

We endorse and welcome the requirements included in this section. In addition to the elements recommended in this section, we recommend that DFS requires governance-related disclosure including a discussion of the role of the audit committee in (1) overseeing the financial reporting process in a way that ensures that the company's announced climate commitments and strategies are clearly reflected throughout the financial statements, (2) ensuring that the company's announced climate commitments and strategies are built into the company's risks and controls systems, and (3) setting the scope of and overseeing the audit in a manner appropriate to ensure the rigor and reliability of climate-related financial disclosures.[16]

Ceres has an active program focused on sustainable governance by corporations. We have extensive resources that might be of interest to insurance companies. These include a current online course on ESG for corporate directors, offered with Berkeley Law School. This might be a helpful resource for board members from insurance companies. Here are a few links to recent reports we have authored:

- Running the Risk: How Corporate Boards Can Oversee Environmental, Social and Governance (ESG) Issues
- Lead From the Top: Building Sustainability Competence On Corporate Boards
- Getting Climate Smart: A Primer for Corporate Directors in a Changing Environment
- SYSTEMS RULE: How Board Governance Can Drive Sustainability Performance

3.7 Public Disclosure

We agree that more disclosure from supervised companies is needed. In particular, today's investors and lenders seek to track absolute GHG emissions to measure and hold insurance companies accountable for promised reductions, in order to arrest both specific and systemic collapses in asset values and businesses. They seek clarity as to whether insurance company management's capital expenditures are consistent with announced climate strategies, both in substance and magnitude. They seek this information both to protect the capital they have invested in insurance companies as well as to protect their portfolios overall from the systemic risks of climate change.[17] We encourage the DFS to include the disclosure requirements described below in the final guidance.

As discussed above, we recommend that the DFS incorporate the TCFD framework into its disclosure rules given its increasing endorsement and use by investors, companies and governments:

Investors. TCFD has high levels of use and acceptance by investors. This is evidenced, for example, by the 2019 Global Investor Statement to Governments on Climate Change, which

[16] See Ceres, *Lifting the Veil* (May 2021) at 17.
[17] *See generally* Jon Lukomnik and James P. Hawley, *Moving Beyond Modern Portfolio Theory* (Routledge 2021).

was signed by 631 institutional investors managing more than $37 trillion in assets.[18] The investors' TCFD endorsement was comprehensive, asking governments around the world to commit to improving climate-related financial reporting, by taking the following steps:

- "Publicly support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations
- Commit to implement the TCFD recommendations in their jurisdictions, no later than 2020
- Request the FSB incorporate the TCFD recommendations into its guidelines
- Request international standard-setting bodies incorporate the TCFD recommendations into their standards."

Since its launch in December 2017, investor members of the Climate Action 100+ initiative have asked companies to "provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)".[19] Most recently, the 575 investor members of the initiative, representing $54 trillion in assets, have created a Net Zero Benchmark with a TCFD disclosure indicator, which measures whether the company "has committed to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)."[20]

Work by the largest asset management firms indicate that the TCFD is squarely mainstream in the investment community. Vanguard has made clear its expectation that companies consider the TCFD for their climate change disclosure,[21] while BlackRock and State Street Global Advisors have gone further, making the TCFD an engagement priority for companies in which they invest.[22]

Companies. Many companies use the TCFD recommendations and reports to inform their thinking about climate change and to structure and guide their disclosures. Companies use the TCFD for stand-alone reports, annual reports, sustainability reports and securities filings.

Research has found that TCFD usage by large and mid-cap companies is commonplace. The TCFD found that on average across the TCFD recommendations, 42% of companies with a market capitalization greater than $10 billion disclosed at least some information in line with each individual TCFD recommendation in 2019.[23] Almost 60% of the world's 100 largest public companies support the TCFD, report in line with the TCFD recommendations,

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[18] Ceres press release, Record 631 institutional investors managing more than $37 trillion in assets urge governments to step up ambition to tackle global climate crisis (December 9, 2019). https://www.ceres.org/news-center/press-releases/record-631-institutional-investors-managing-more-37-trillion-assets-urge

[19] https://www.climateaction100.org/about/; https://www.climateaction100.org/approach/the-three-asks/

[20] https://www.climateaction100.org/wp-content/uploads/2021/03/Climate-Action-100-Benchmark-Indicators-FINAL-3.12.pdf

[21] https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/ISCLRG_062020.pdf

[22] https://www.ssga.com/library-content/products/esg/asset-stewardship-highlights-2018-2019.pdf; https://www.blackrock.com/corporate/literature/publication/blk-commentary-engaging-on-climate-risk.pdf; https://www.blackrock.com/corporate/literature/publication/blk-commentary-tcfd-sasb-aligned-reporting.pdf.

[23] https://www.fsb.org/2020/10/2020-status-report-task-force-on-climate-related-financial-disclosures/#:~:text=The%20TCFD%20found%20that%3A,individual%20TCFD%20recommendation%20in%202019.

or do both.[24]

Governments. In the U.S., a growing number of financial regulators have announced actions related to the TCFD. As are well aware as a leader in this work, for several years, insurance commissioners in six states have allowed insurers to respond to the National Association of Insurance Commissioners (NAIC) climate disclosure questionnaire with a TCFD report.[25] There is a growing group of insurers that use the TCFD for their complying with the NAIC questionnaire. For 2022, the NAIC is already considering whether to integrate the TCFD framework into the NAIC questionnaire, or replace it with a TCFD reporting requirement.[26]

Several governments around the globe have incorporated the TCFD into climate disclosure guidance and are beginning to incorporate it into rules.[27] This includes planning to issue climate disclosure regulations (Brazil, Hong Kong, New Zealand, United Kingdom, Switzerland), incorporating it into climate disclosure guidance (Australia, European Union, Japan, Singapore), recommending the incorporation of the TCFD into guidance (South Africa), endorsing the TCFD (Ireland's Minister for Finance), and establishing COVID-19 relief financing to large employers that is partly contingent on these companies publishing TCFD-aligned disclosures (Canada).[28] On April 13, 2021, New Zealand introduced a bill that requires certain financial companies to disclose the impacts of climate change on their business and explain how they will manage them, reporting according to the TCFD recommendations.[29] On May 21, 2021, Canada launched a Sustainable Finance Action Council, which has a principal mandate that includes enhanced assessment and disclosure of climate change risks and opportunities, and an early emphasis on aligning disclosures with the TCFD recommendations.[30]

We also recommend that the DFS should require disclosure of a net-zero scenario analysis that standardizes disclosure related to the parameters, assumptions, analytical choices and impacts used in the analysis. This analysis should be assured at the reasonable assurance level and provided in a supplemental schedule to the financial statements. DFS should consider drawing from the TCFD's resource of "Key Considerations: Parameters, Assumptions, Analytical Choices, and Impacts" in its scenario analysis guidance.

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[24] Id.

[25] http://www.insurance.ca.gov/0400-news/0100-press-releases/2020/release126-2020.cfm

[26] See NAIC Climate Risk and Resiliency Resource Center, Climate Risk Disclosure, meeting recordings from January 27 to February 17, 2021, https://content.naic.org/climate-resiliency-resource.htm.

[27] https://www.fsb-tcfd.org/support-tcfd. See for example, 78 country supporters.

[28] Task Force on Climate-related Financial Disclosures Overview (March 2021) at 36-39.

[29] https://www.beehive.govt.nz/release/nz-becomes-first-world-climate-reporting

[30] https://www.canada.ca/en/department-finance/news/2021/05/canada-launches-sustainable-finance-action-council.html

Investors support disclosure of robust climate scenario analysis

Investors find that climate scenario analysis provides insights into the quality of governance as well as the degree of planning to thrive in a net-zero economy. Scenario planning gives companies an opportunity to advocate for the enterprise value of their firms and support mission-critical objectives. Disclosure of climate scenario methodology and embedded key parameters offers a window into the level or rigor applied to risk assessment and management. At the same time, the process of building climate scenarios creates unique opportunities within a firm to generate crucial innovative thinking that challenges deeply held beliefs and operating assumptions about the carbon intensity of the economy. The end result should lend a clearer perspective on the company's future and the resilience of its strategy to the risks of climate change.

The **Climate Action 100+** calls for companies to disclose in alignment with the TCFD recommendations and sector-specific guidelines of the Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change[31] where applicable. The initiative's Net-Zero Company Benchmark documents its specific disclosure expectations:

> "Sub-indicator 10.2 The company employs climate-scenario planning to test its strategic and operational resilience.
>
> > Metric a): The company has conducted a climate-related scenario analysis including quantitative elements and disclosed its results.
> >
> > Metric b): The quantitative scenario analysis explicitly includes a 1.5° Celsius scenario, covers the entire company, discloses key assumptions and variables used, and reports on the key risks and opportunities identified."[32]

Investors have been vocal in demanding more granular scenario-related disclosure. In November 2020, a group of global investors (representing over $9 trillion in assets under management) wrote letters through the Institutional Investors Group on Climate Change (IIGCC) to 36 of Europe's largest companies calling for 'Paris-aligned accounts' and outline steps that the investors expect directors to take as part of this process. These steps include 1) an explanation of how critical accounting assumptions used to prepare accounts are "consistent with net zero carbon emissions in 2050, in line with the Paris Agreement" with explanations and rationale if management does not use 'Paris-aligned' judgements; and, 2) providing sensitivity analyses for the judgments or estimates used.[33] Investors also require more granular scenario analysis disclosure to meet their own net zero goals. For example, members of the Net Zero Asset Managers Initiative (representing $37 trillion in assets under management), have committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing

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[31] https://globalinvestorcoalition.org/

[32] Climate Action 100+, Net-Zero Company Benchmark, March 2021, P. 4, https://www.climateaction100.org/wp-content/uploads/2021/03/Climate-Action-100-Benchmark-Indicators-FINAL-3.12.pdf

[33] IIGCC, Template letter to European companies "Investor Expectations for Paris-Aligned Accounts", November 2020, https://www.iigcc.org/download/iigcc-letter-to-european-companies-on-paris-aligned-accounts/?wpdmdl=4006&masterkey=5fabc9c5af24f; see also IIGCC, "Leading investors call on Europe's largest companies to address missing climate change costs in financial accounts", November 11, 2020, https://www.iigcc.org/news/leading-investors-call-on-europes-largest-companies-to-address-missing-climate-change-costs-in-financial-accounts/

aligned with net zero emissions by 2050 or sooner, and they require scenario analysis from companies to meet these goals.[34]

Shareholder resolutions have called for more disclosure on strategy resilience to various climate scenarios. The Exxon shareholder vote is a vivid recent case study. For example, "Companies have also faced significant investor pressure for specific disclosures regarding the resilience of company portfolios and business strategies to a 2 degrees C scenario. For example, in 2015, the "Aiming for A" coalition filed shareholder resolutions with Shell, Statoil and BP that sought a broad range of increased climate disclosures. Recognizing the importance of these issues, the boards of these companies endorsed the resolutions, and each of these resolutions passed with more than 98% of shareholder support. In 2016 in the United States, shareholder resolutions focused on requiring 2 degrees C scenario analysis received the highest levels of investor support for climate risk resolutions even in the face of management opposition to the resolutions."[35]

Existing efforts on climate scenario analysis are not meeting the needs of investors, due to a lack of comprehensive disclosure. Today, many companies' disclosures about scenario analyses tend to be incomplete and lacking key details on inputs and assumptions. This prevents robust investor analysis of issuers' plans and strategies. In addition, the use of different scenarios prevents comparison of outcomes across issuers and sectors. Without consistency and transparency as to the assumptions used, there is little basis for confidence in either the quality of the company's earnings today or the company's ability to thrive, or even survive, in a net-zero environment.

An MIT paper on climate scenario analysis reports by oil and gas companies confirmed these weaknesses.[36] It found that "climate-related reports are of limited use to investors for three reasons." First, scenarios used lack comparability across companies. Second, even when companies use published reference scenarios, the disclosures often lack critical information necessary to interpret them, such as the time frame, discount rate and price assumptions used. Third, many scenario analyses are incomplete in scope. For example, they may analyze vulnerabilities but fail to address preparedness, or vice versa. The good news is that, as the paper suggests, "[f]ew companies exhibit all three shortcomings."[37] The paper continues:

> The relative sophistication of each company in one or another aspect of disclosure suggests that clear, comparable, and consistent climate-related disclosures are, in fact, attainable. If all companies were willing to match their peers in the areas where their peers provided strong disclosure, the field would take a giant leap forward.[38]

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[34] Net Zero Asset Managers Initiative, https://www.netzeroassetmanagers.org/net-zero-asset-managers-initiative-triples-in-ass

[35] See Amy Myers Jaffe, A Framework For 2 Degrees Scenario Analysis, Ceres, March 2017, at 29 https://www.ceres.org/sites/default/files/reports/2017-03/Framework_Jan%2010%2017.pdf; See also Bradley Olson and Nicole Friedman, "Exxon, Chevron Shareholders Narrowly Reject Climate-Change Stress Tests," (May 25, 2016) available at http://www.wsj.com/articles/exxonchevron-shareholders-narrowly-reject-climate-change-stress-tests-1464206192

[36] See *Climate-Related Financial Disclosures: Use of Scenarios*, at 25.

[37] Id.

[38] Id.

The weaknesses above may also prevent companies from meeting existing auditing requirements. As noted in a recent Ceres report, Lifting the Veil,[39] investors expect auditors to ensure - in an era of significant climate pledges and changes in public sentiment or demand from policies and regulations related to energy transition - that corporate financial statements are accurate with respect to reported asset values, asset impairment losses, changes in estimated useful lives of assets, and the timing and amount of asset retirement obligations. For example, if an underlying strategy that is dependent on negative emissions needs to shift to more significant near-term emission reductions, such strategic changes could trigger asset impairments and new charges for asset retirement obligations (AROs). If so, as discussed above, significant assumptions about future emissions, negative emissions and carbon prices must be clearly and explicitly disclosed.

Thank you very much for your consideration; it is deeply valued. We stand ready to provide additional background and resources for the New York Department of Financial Services. If there are questions on the points highlighted here, or if you would like further information, please contact me at srothstein@ceres.org or 617-247-0700 ext. 237.

Best wishes with your important deliberations.

Sincerely,

Steven

Steven M. Rothstein
Managing Director, Ceres Accelerator for Sustainable Capital Markets

cc: Nina Chen, Sustainability and Climate Initiatives Director, New York State Department of Financial Services

[39] https://www.ceres.org/resources/reports/lifting-veil-investor-expectations-paris-aligned-financial-reporting-oil-and-gas.